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# Making Alliances Work



*Business partnerships can be tickets to growth or shortcuts to disaster. Here's how to develop relationships that succeed.*

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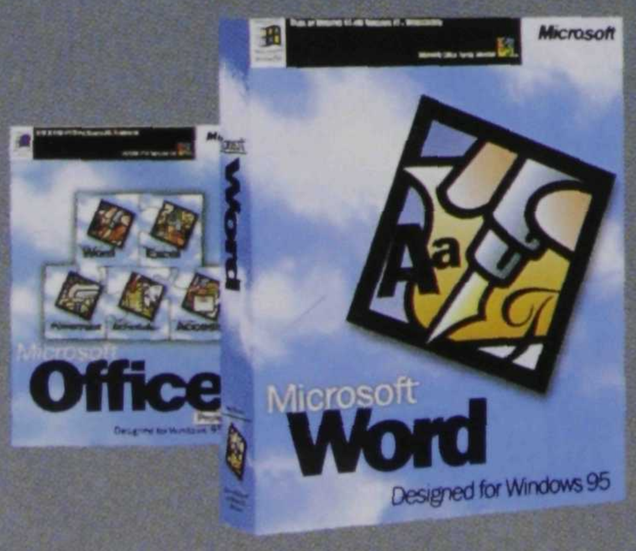
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**Under an "in-plant" arrangement,** *Chris LaBonte of G&F Industries Inc. worked in a Bose Corp. plant, making purchases for G&F. It is one of many types of alliances that firms are creating to achieve goals they could not accomplish on their own. Cover Story, Page 18.*




PHOTO: ©TOM SOBOLIK—BLACK STAR

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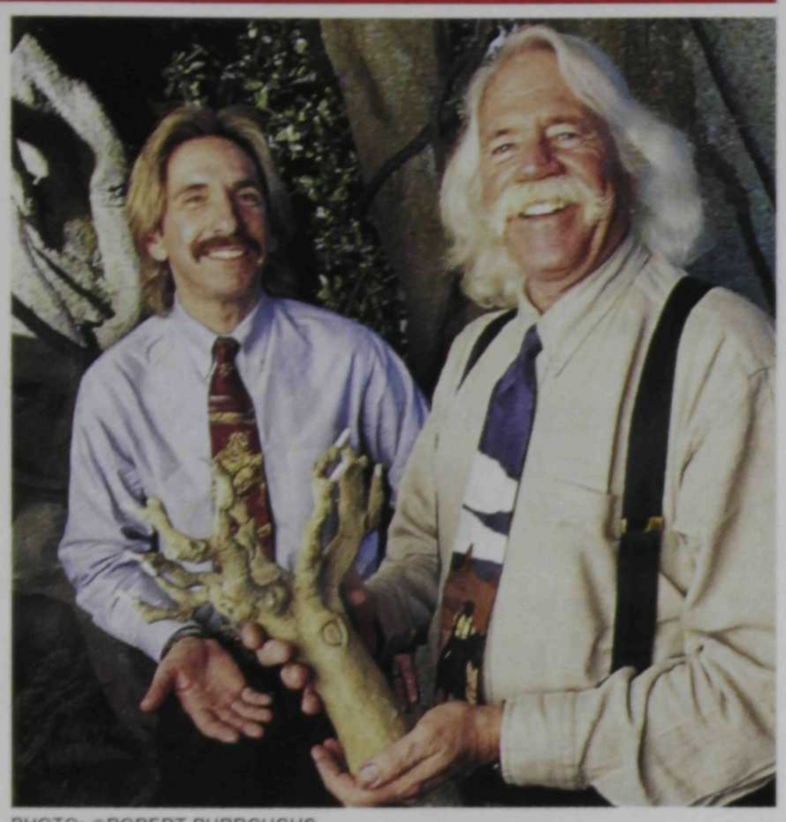


PHOTO: ©ROBERT BURROUGHS

**Duplicating nature** *pays off for California Country Trees founders Gary Hanick, left, and Bennett Abrams. Making It, Page 14.*

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# Editor's Note

## The Truth About Relationships

In any relationship, certain attributes and goals of the parties involved enable the partnership to succeed or, conversely, cause it to fail.

Our May cover story, "Striking The Right Match," written by Associate Editor Roberta Maynard, examines why small companies are finding it essential to establish strategic relationships with other businesses and what makes such alliances work well.

If your firm is still going it alone or if your partnerships with other companies occasionally seem rocky, you'll find some useful advice in this story, beginning on Page 18.

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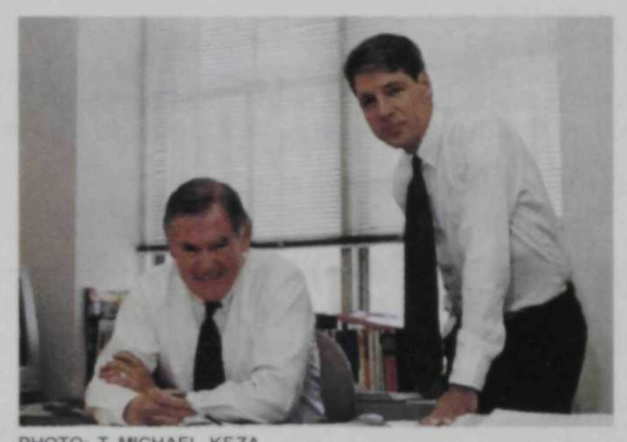


PHOTO: T. MICHAEL KEZA

Your company probably has one or more employees who work quietly behind the scenes, ensuring that the product or service you provide is the highest caliber possible.

Two people who play such roles at *Nation's Business* are Deputy Editor Terry Shea (seated in the photo) and Associate Editor Steve Rush, who operate our copy desk. While we demand high-quality work from every employee, these two serve as our quality-assurance team. Like the writers whose names appear on the stories, they have worked to make sure every article in this issue, as in others, is complete and interesting.

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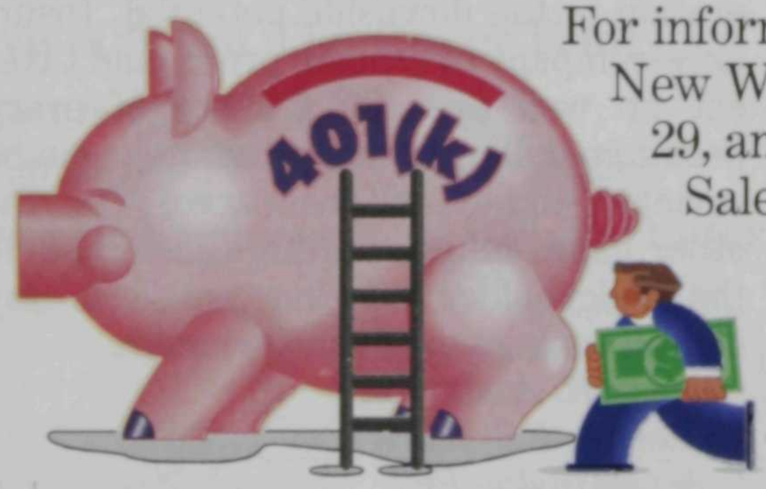



ILLUSTRATION: GEORGIA LEIGH MCDONALD

For information on trends, see "The Brave New World Of Business Security," on Page 29, and "X Marks The Spot For Low-Key Sales," on Page 32.

If you have employee compensation on your mind, see "Linking Payday To Cash In Hand," on Page 36, and "Check The Fine Print In Picking A 401(k) Plan," on Page 74. If technology is your interest, see how other entrepreneurs are doing business more efficiently in "The Case For E-mail," on Page 61.

Next month, we'll look at guarding against business espionage and how small firms are cutting insurance costs, among other topics.

Mary Y. McElveen
Editor

Nation's Business

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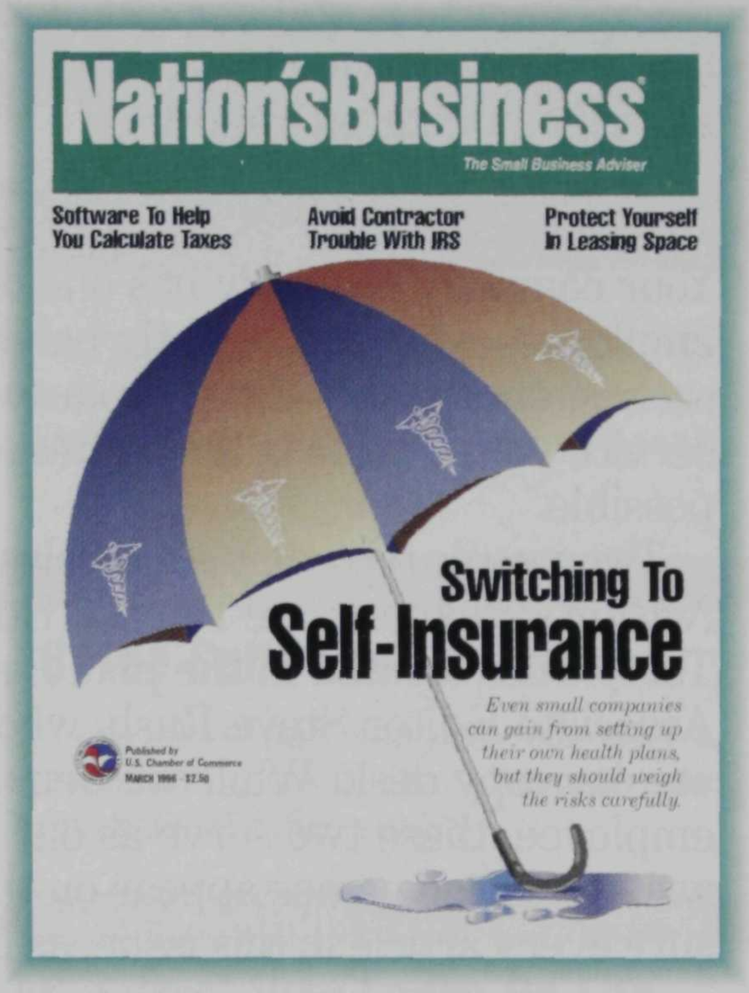
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# Letters

## A Balanced Report On Self-Insuring

Your March cover story, "Switching To Self-Insurance," was the best article I have read on the subject. It put into perspective the usual circus barkers' ballyhoo touting self-insurance as a cure for all the ills of the world. The account was truly balanced.

Policyholders considering a switch to




self-insurance should give careful consideration to the downside potential. Insurance-company overhead, profit, and taxes eat up well over 50 percent of every premium dollar, so there definitely can be savings under self-insurance. On the other hand, simply shifting these costs to the policyholder may not result in any overall savings to the policyholder.

*Eugene R. Anderson*
*Anderson Kill Olick & Oshinsky, P.C.*
*Attorneys and Counsellors at Law*
*New York*

## Communication Is Key

As a health and welfare consulting office, we were pleased at your approach in "Switching To Self-Insurance." The story did not sugarcoat the pros or diminish the cons of this method of providing health coverage for employees.

The clipboard checklist of seven critical decision-making areas should be a useful tool for employers considering self-funding of group health coverage. Regarding item No. 7 on the list, we would underscore the necessity of communication with workers.

Self-insurance is a long-term commitment to achieve the desired results for both employer and employee. Any modification to the health-benefit plan will always require well-drafted written documents and effective verbal communication.

On another matter, our impression of the firms in the article that had made the switch to self-insurance and returned to fully insured plans was that they either were not good candidates to begin with or that they mismanaged the process of self-insurance. This is yet another reason to answer the questions in the checklist honestly.

*Timothy M. Kearns*
*Manager*
*Arthur Andersen LLP*
*Rock Island, Ill.*

## Withholding Details

We made the switch to self-insurance three years ago. While the first year was our "disaster," with several high claims, the last two years helped make up for it.

Our main reason for the switch was to retain the best possible coverage for our employees. We did not want to limit their choices with a health-maintenance organization, and with traditional insurance the deductible and co-insurance kept rising. We now have a $100 deductible with a maximum $500 out-of-pocket expense—better coverage than the state guidelines, and we are saving money to boot.

As for keeping employees well-informed, we tend to disagree. This company has always been fair with its employees. But even when we are generous, we often are met with the attitude that there is a catch—that if the company is doing something good for the employees, then it must be doing something even better for the company.

Because, as your article points out, the workers may notice little if any difference when a company self-insures, we have opted to leave well enough alone and not give detailed information about being self-funded. Yes, we are doing something good for the company (saving money), but we feel we are doing something even better for our employees.

*Patricia A. Traynor*
*Corporate Secretary*
*Graphic Crafts Inc.*
*Willow Street, Pa.*

## Further Insurance Against Lease Problems

Your March article "Shutting The Door On Lease Problems" omitted one point. Leases should be reviewed by your insurance agent or broker. Most lawyers who inspect leases don't check or don't understand how a business's insurance program will respond to requirements in a lease. Often, the lease's insurance language is archaic or inappropriate.
*Jeffrey A. Murray*
*President and CEO*
*Acordia of Arizona*
*Phoenix*

## Auditing Your Lease

You correctly pointed out the importance of using professionals during the lease process and of getting everything in writing. But to make sure the door is really shut on problems, one additional step is prudent.

Even with professionally executed



ILLUSTRATION: GEORGIA LEIGH MCDONALD

leases, a surprisingly large percentage of tenants are overcharged because of improper subsequent lease administration. The tenant or a representative should conduct an annual lease audit to verify that all of the landlord's billings conform with lease terms.

Many commercial tenants outsource this function to firms that will conduct a lease audit at no charge other than a percentage of the savings generated.
*Bob Wiesner, Senior Partner*
*The Robert Thomas Group*
*Deerfield, Ill.*

## Electronic Mail Has Its Limitations, Too

The letter to the editor in the March issue promoting the expanded use of electronic-mail addresses was timely. My comments, in fact, are being dispatched to you electronically.

However, we should not be blind to the limitations of e-mail or too quick to abandon regular mail.

I have encountered e-mail that took three days to cross the Pacific. A downed file server is as useless as a padlocked post office. I have also encountered difficulties in making e-mail connections because of trivial errors in punctuation. The Postal Service, in most cases, is far more forgiving of a dropped comma.

I also harbor a suspicion that e-mail is not afforded the same respect as a communication that arrives on paper. There is a widespread belief in some organizations that an e-mail request can be ignored. Hitting the delete key is so much easier than a slam-dunk into the circular file.
*Jerry Gennaro*
*East Brunswick, N.J.*

*[Editor's Note: For more on this subject, see "The Case For E-mail," on Page 61.]*

## Speaking Up For Community Colleges

The next time *Nation's Business* covers work-force training, it ought to take a look at America's community colleges. Although a reader of "Closing The Skills Gap" in the March issue wouldn't know it, community colleges provide most of America's work-force training, much of it customized and delivered to the work site.

Check us out. We do it better and cheaper.
*Gary Davis, Executive Director*
*Illinois Community College Trustees Association*
*Springfield, Ill.*

## Correction

In the resources list accompanying April's story on Latin American trade, the phone number of the publisher of *Investing and Selling in Latin America* was incorrect. The correct numbers for Hemisphere Business are: (913) 677-4116 or 1-800-846-3131; the fax number is (913) 789-8945.

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# Dateline: Washington

*Business news in brief from the nation's capital.*

## LEGISLATION

### Lawmakers Have Their Work Cut Out For Them

If Republican members of Congress are to run for re-election in November on a strong record of accomplishment, they will need to carry the frenetic pace set in the weeks before Congress' two-week April recess into the 40 or so legislative days remaining this year.

House Majority Leader Richard K. Armey, R-Texas, acknowledged as much in a letter to GOP colleagues just before the recess: "When we left town for the February recess, I'll be the first to admit that we were in somewhat of a muddle." March was a " 'transition month,' a staging ground for our climb back into the game," he continued.

The GOP will begin the climb on rather high ground after a March in which Congress passed several measures included in the Contract With America, the agenda that House Republicans drew up in 1994 and promised they would send to President Clinton before the 1996 elections. Contract measures signed by Clinton in March and April include:

■ Legislation empowering the president to veto specific spending line items and limited tax breaks—those that lose revenue and benefit fewer than 100 individuals or companies—in appropriations bills. The new law goes into effect Jan. 1 and runs through Dec. 31, 2004.

■ A regulatory-relief bill that allows small businesses to take federal agencies to court if the agencies fail to consider small-business concerns in drawing up regulations. Small firms also gain the potential to recover some costs involved in such actions.

■ An increase in the amount of income retirees may earn before they begin losing Social Security benefits. The earnings limit had been $11,520, after which people over 65 lost $1 in benefits for every $3 earned. The limit will rise to $12,500 this tax year and increase by $1,000 a year until 2000, when it will reach $17,000. In 2001 it will rise to $25,000, and in 2002 it will increase to $30,000.

Congress also passed and Clinton reluctantly signed a new farm bill, which was not part of the Contract With America but was high on House and Senate lawmakers' list of things to do before the spring planting season began.

The law not only ends decades-old federal controls on crop-planting decisions but also is expected to reduce federal spending on farm programs by about $10 billion by the year 2000.

The most important business-backed measure passed by Congress in March—but one that Clinton has said he would veto—was bipartisan legislation to replace the current crazy quilt of state product-liability laws with a uniform federal statute. Such legislation, which was also included in the Contract With America, has been a top business priority for more than 15 years.

According to the House majority leader's office, representatives hoping to run on their accomplishments still need to advance at least some tax-related measures—most likely to include a proposed constitutional amendment requiring a two-thirds vote of Congress to raise taxes, or a bill giving taxpayers new rights in dealing with the Internal Revenue Service.

Armey also suggests that lawmakers must pass at least one environmental bill and a measure to reduce the size of the federal government.

The Senate's plate is even fuller. Items scheduled for votes soon would limit congressional terms and protect the rights of citizens if government actions significantly diminish the value of their property.

Other bills set for Senate votes before Memorial Day include a measure that would further restrict illegal immigration.

Even though Congress and the White House have yet to agree on a final fiscal 1996 budget plan and spending bills for many parts of the government, they will have to begin working on the budget outline and spending bills for fiscal 1997, which begins Oct. 1.

*—Albert G. Holzinger*

## DEMOGRAPHICS

### The Aging American Customer

**The number of Americans who are middle-aged or older will continue growing over the next 20 years, according to the U.S. Census Bureau, and this will present many new product and service sales opportunities to savvy U.S. business people. (*Nation's Business* will be providing more information on population trends and their impact on business in the months to come. In this issue, see "X Marks The Spot For Low-Key Sales," about marketing to the 17-to-30 age group, on Page 32.)**

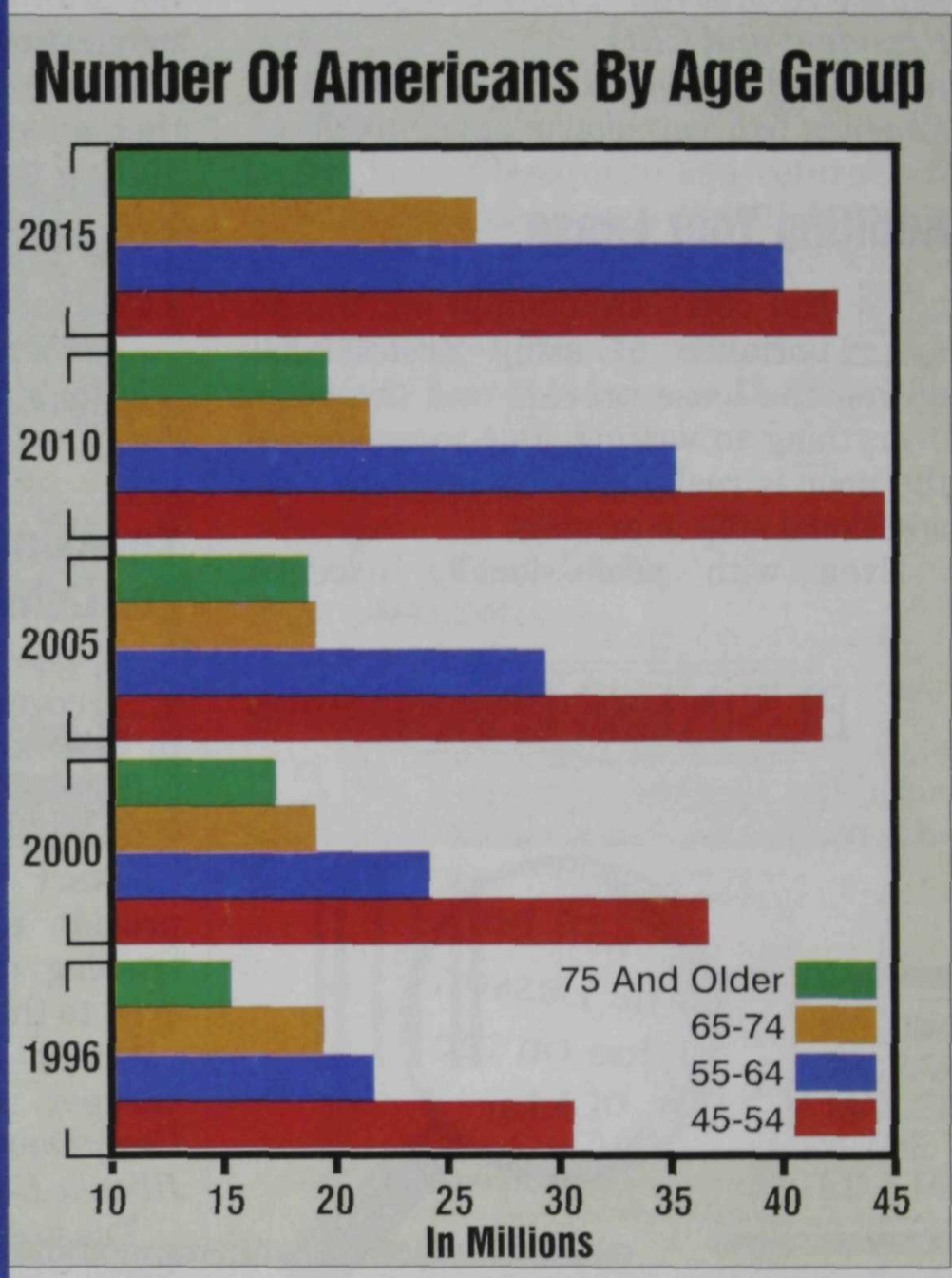
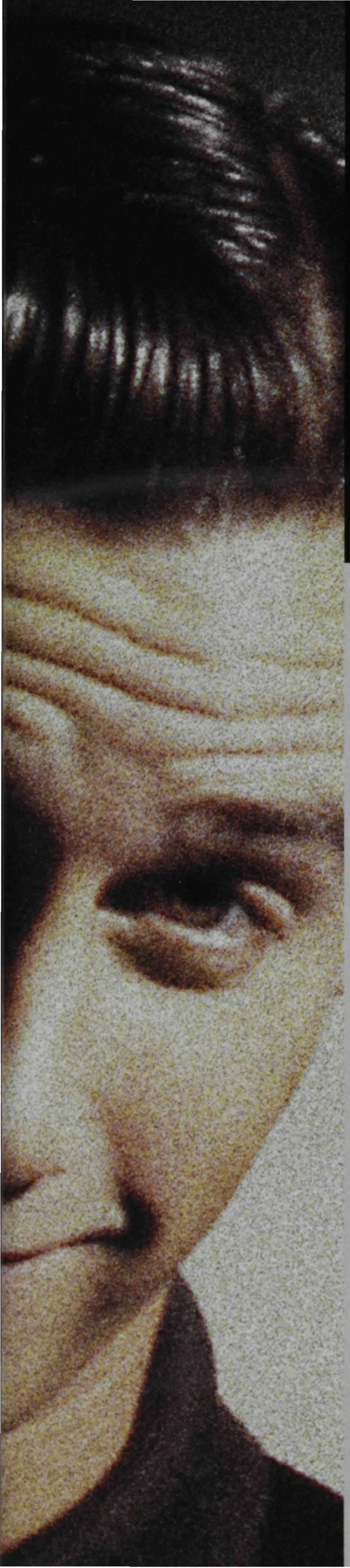



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Entrepreneur's Notebook

By Susan A. Schreter

# Making The Climb Onto Store Shelves

Trying to get a new product onto the shelves at drugstores and supermarket chains is a bit like tackling Mount Everest—the mountain will be there whether you climb it or not.

Product buyers—a manufacturer's only path to store shelves—have little time, less shelf space, and lots of competition for their attention. It's easy for buyers to stick with established sellers, making the climb difficult for any new product.




PHOTO: ©DOUG WILSON—BLACK STAR

**The Rejoice product** *of Susan A. Schreter's firm has caught on at national grocery and drugstore chains.*

I found this out firsthand when I sought retail space for my firm's first product. Unlike bulky, plastic-coated "briefs" or diapers for incontinent adults, our Rejoice product is more like traditional underwear—a reusable cotton pant combined with state-of-the-art absorbent material.

Our market research showed that there were 3 million to 5 million adults who refused to wear the available products. To succeed, Caring Products International, the Seattle-based company I founded with a partner in 1992, needed to convince product buyers of the need for a markedly new incontinence product and of our ability to reach both the existing market and those people who were limiting their activities rather than wearing the products already on store shelves.

Today, our 40-employee company is projecting sales of $10 million for the current fiscal year. It has stocking arrangements with some of the largest chain stores. The lessons to be learned from our success are valuable to any manufacturer trying to gain shelf space:

■ **Establish an organization of brokers or manufacturers' representatives.** Using representatives to market your product is a highly cost-effective way to introduce your products to buyers. The larger and more respected the broker, the better.

■ **Be prepared.** Once a buyer says "No," it's over until the chain names a new buyer or your other successes force the chain to reconsider. So it's crucial that you come in with a strong, well-prepared presentation that sells your product and does it quickly.

For us, convincing buyers required more than just the standard business presentation; we needed testimonials from people dissatisfied with the available products in order to demonstrate the need for an alternative.

■ **Use your differences to your advantage.** The majority of buyers I met had never opened a package of adult diapers before our meeting. Until we showed them the existing products and then ours, they couldn't fully appreciate why Rejoice is different and could help their business.

■ **Know the store.** Visit a chain's stores to see the products sold in your category. Determine where your goods would fit on the shelf and whether floor displays are possible.

Arrive at the sales call armed with information provided by your broker, ranging from data on competition and pricing to local demographics and the store's sales priorities.

■ **Listen to the buyer's needs, and make reasonable counterproposals.** If the buyer likes your product, but at a cost for store entry that could break your budget, don't despair. Try instead to determine what the company expects from the buyer—what he or she really needs to get from you. By determining this, you have a better chance of countering with a win-win proposal.

Given the demands of their jobs, product and service buyers today find their time for evaluating market trends and customer needs is constantly shrinking. Identifying those needs and how your product addresses those concerns or a specific market gap can make the difference between reaching the top and staying at ground level. NB

*Susan A. Schreter prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

## What I Learned

***Convincing product buyers that your new offering is needed is the only way to get a foot in the door at the big chains.***

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# Managing Your Small Business

*Building quality through financial rewards; banking on the big picture; heading off competition.*

*By Roberta Maynard*



PHOTO: ©LEIF SKOOGFORS

**An incentive program** *cultivates quality and team spirit at the home-construction firm owned by John Westrum, bottom right, at a building site with his management team: from left, Steven Stoughton, Chris Gillen, and John Harper.*

QUALITY CONTROL

## Hammering Home Performance Incentives

How does a company president motivate everyone in the firm—from administrative assistants to project managers—to deliver a superior product? It was a challenge that John Westrum faced in 1993, when dramatic business growth—400 percent in three years—had his 25 employees scrambling to keep up with the work.

Westrum was concerned about maintaining the quality of the new homes being built by his Blue Bell, Pa., firm, Westrum Development Co. It seemed to him that the five-year-old company had lost sight of three quality-control fundamentals: customer satisfaction, on-time delivery, and budget control.

In response, Westrum adopted an incentive program suggested by his employees. The incentives are based on how well the entire team of employees is able to meet goals that have been carefully established for each home built.

Under the program, an average of $1,000 per house is allocated to an incentive pool. Each home-construction job is divided into 10 stages, from the initial notice to build to the end of the one-year warranty period. When the company meets the goal for a given stage, the employee team collects 10 percent of the allocated amount.

In a typical quarter, $17,000 in incentives is distributed among the company's employees. From April 1995 through this April, the employees earned $78,000 of a possible $150,000. "I *want* that money to be paid," says Westrum. "As a business owner, the more I pay out, the more exceptional work we are doing."

He says that "at first the goal was to have everyone in the company know what the performance standards were and how to meet them," but now the application has become more far-reaching. Employees use the system to anticipate potential problems on any given construction project and make the changes required to avert them.

Westrum, who at first was reluctant to start the program because of the sizable cash outlay required, now can't say enough good things about it. "Self-esteem is phenomenal. It has raised the level of professionalism to one that allows us to compete with any company in the nation," he says. "It has boosted quality, financial controls, and customer satisfaction and has cultivated a team spirit that, I think, is second to none.

"You'd be surprised how people lift each other up when everyone is working toward the same goal and they see someone needs help. It has provided sanity in a very intense business." ■

FINANCE

## Have You Seen Your Banker For Your Annual Checkup?

Business owners typically think of their bank when they're facing immediate borrowing needs but not when they're making strategic business plans.

Realizing this, Ken Lipke, vice president at Bank Leumi Trust Company of New York, in New York City, began inviting his commercial customers to come in annually for a financial checkup.

At these meetings, Lipke and his clients review their entire banking relationship, including, for example, how well a loan or a line of credit has met the business's needs. Discussing a company's overall direction and financial strategy for the coming year alerts Lipke to clients' plans to lease equipment, to expand, or to enter new markets.

Often, he says, the process has helped his clients save money or put funds to better use by adding bank services they weren't aware of or by dropping those they no longer need.

"A business person tends to be crisis-oriented," says Lipke. "This forces them to sit back and think about the big picture. When they do that, things they haven't thought about often come up and can be addressed in a more strategic way." ■

RETAILING

## Sprouting Sales With 'Green' Products

Lest anyone think that environmentally friendly products are merely a vestige of the past, the success of Wendy Walker's business in Rockville, Md., proves otherwise.

First-year revenues at her store, As Kindred Spirits, came to $700,000 in 1995, up 70 percent from the year before, when Walker sold her goods only from mall kiosks. By the end of 1995, the mailing list of 1,500 names she had brought from the former kiosk operation had ballooned to 4,000. She projects revenues this year of $900,000.

Walker owns and operates the store in a shopping center with her husband, Jeff. She sells jewelry, sculpture, original artwork, ceramics, cards, and apparel, emphasizing recycled goods and hemp clothing—no leather or plastic products. A percentage of the profits goes to providing vegetarian food to international relief programs.

Walker believes the inventory she carries helps create an ambiance that draws customers who identify with her own ideology.

It's not just baby boomers reliving their youth who are buying her "green" goods, either. College students make up a large part of Walker's customer base. To keep them coming back, she is careful to offer products in a wide range of prices, as well as special events geared to them.

Another factor in drawing customers, Walker believes, has been her retail neighbors, which include natural-foods purveyor Fresh Fields and other stores that cater to what Walker calls "lifestyle" customers.



PHOTO: T. MICHAEL KEZA

**Offering items** *in tune with her own environmentally aware ideology has led to success for Wendy Walker and her store, As Kindred Spirits.*

Walker reaches out to these potential customers by advertising on public radio and in neighborhood newspapers. A steady menu of storytelling sessions, book signings, and other events provides something extra for customers.

Walker finds many of the products she sells through cottage businesses and at shows for wholesalers.

The following two sources of environmental products have also been useful:

■ The *National Green Pages*, published by Co-op America, a national nonprofit group. It lists 1,500 firms that supply environmental products and services. To obtain a copy, send $6.95 to Co-op America, 1612 K Street, N.W., Suite 600, Washington, D.C. 20006; or call 1-800-58-GREEN (1-800-584-7336).

■ *The Green Pages*, a directory of 5,000 U.S. suppliers of environmental products and services, published by U S WEST in cooperation with the U.S. Department of Commerce. A supplement to *The Export Yellow Pages*, it is available free while supplies last from local Commerce Department offices, or it can be ordered for $19.95 by calling U S WEST Direct at 1-800-422-8793. ■

LEGAL ARRANGEMENTS

## Protect Your Company's Proprietary Information

If you are about to acquire a business or if your employees or suppliers have access to valuable, confidential information, you might want to implement noncompetition agreements.

Such agreements are especially important for businesses involved in cutting-edge technology and for companies whose client relations are critical, such as advertising firms.

A noncompetition agreement is designed to keep the proprietary and other elements of a firm's success from being used by former owners or employees in a competing new venture.

The agreement could bar a former owner from establishing a competing business, for example, or it could preclude former employees from using information such as secret processes, client data, or customer lists.

It could also prohibit a former employee from soliciting the firm's key suppliers or its employees.

In most states—a notable exception is California—noncompetition agreements are enforceable at least to some degree. A court is unlikely to view an agreement favorably, however, if the agreement is not reasonable or is overly broad, says Kenneth Schmeichel, a partner in the Cleveland law firm of Calfee, Halter & Griswold.

The contract should include a detailed description of the product, service, or information to be protected; the period covered (typically one or two years, depending on the industry); and the agreement's geographic scope, which may include markets the company has plans to enter.

"The important thing is that an agreement puts on record what the employer views as confidential information and shows, by the employee's signature, that he or she recognizes that," says Schmeichel.

Before contacting a lawyer to draft an agreement, companies can save time and money by identifying exactly what they want to protect, taking into account their own situation and their particular trade or industry, Schmeichel says. ■

NB TIPS

## Resources On Latin America

Information about business opportunities in Latin America is available in a variety of publications geared to U.S. companies. Here are several that can be ordered through the U.S. Chamber of Commerce:

■ *Survey of Foreign Investment Climate*, $30; *Welcome to Chile Guide*, $45; and *Guide to Mexico for Business*, $18.

■ A series of "How To" pamphlets on doing business in Brazil; $15 apiece.

■ Directories listing U.S. companies doing business in each country; prices vary.

■ Magazines on nine key countries, compiled by the Association of American Chambers of Commerce in Latin America.

For a complete listing of publications, call the U.S. Chamber at (202) 463-5460.

## Meeting Madness

Jack Pitney, a professor of government at Claremont McKenna College, in Claremont, Calif., offers this thought on how a meeting should never go: "Purgatory is a meeting that goes off on a tangent. Hell is a meeting that ends there." NB

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# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*

## Designing The Future

*By Laura M. Litvan*

Many companies working to curtail their impact on the environment are well-versed in these three R's: Reduce. Reuse. Recycle. In recent years, businesses of all types have drawn on these concepts, cutting back on their use of resources and turning waste into raw materials.

But William A. McDonough, founder of a 20-employee architecture firm in Charlottesville, Va., has built his business on the philosophy of a fourth R: Redesign.

Since the mid-1980s, William McDonough + Partners has been creating building designs that give priority to environmental considerations, such as improved indoor air quality or lower energy consumption. Now, McDonough is helping clients redesign their manufacturing processes. In his first major project, he recently helped a textiles manufacturer develop a biodegradable fabric that is made without the use of toxic chemicals.

While it may seem unusual for a maker of buildings to become involved in the making of products, to McDonough it's a logical link. He thinks pollution often is a sign of faulty design, and that an architect, trained in the intricacies of form and function, is well-positioned to find a solution.

"I see any emission as a signal of inefficiency," says McDonough, 45, who also is dean of the school of architecture at the University of Virginia, in Charlottesville. "To me, it's a design opportunity, left and right."

His interest in "green" architecture dates to the mid-1970s, when he designed one of the first solar-heated homes in Ireland while pursuing a graduate degree in architecture at Yale University.

Although he founded his firm in 1981, it wasn't until 1985 that he took on a major commercial environmental project. He was hired to design the New York City headquarters of the Environmental Defense Fund, an environmental group whose officials made it clear that indoor air quality was a priority.

**The environment** *is key for architect William A. McDonough, with a model of a solar-heated factory his firm designed.*



PHOTO: ©KEN TOUCHTON

Acknowledging that concern, McDonough and his staff hunted for building materials that did not contain toxic chemicals. But it was tough, because at the time companies in the industry fiercely guarded details of their products' contents, he says. But some companies came around. In one instance, a paint manufacturer agreed to eliminate some product additives to meet McDonough's needs.

As more companies have embraced the notion of "green" architecture, McDonough has been tapped to do projects for major corporations. In the past few years he has designed a new corporate "campus" in San Bruno, Calif., for clothing retailer The Gap, and he also helped design an environmental prototype store in Lawrence, Kan., for Wal-Mart Stores Inc.

The U.S. Department of Energy is closely following one of his most recent works, a solar-heated factory built last year in Zeeland, Mich., for Herman Miller Inc., a maker of office furniture. Among other things, the building replaces the fresh air delivered to its 700 occupants every 30 minutes, and it has a sophisticated system for filtering storm-water runoff, a common source of water pollution.

The Energy Department is using the Michigan plant site as part of research into whether "green" buildings can improve productivity and other aspects of corporate performance.

McDonough's first foray into the re-engineering of manufacturing processes was completed last year, with the introduction of a new line of fabrics by Designtex, a textiles subsidiary of Steelcase Corp., another office-furniture maker, in Grand Rapids, Mich. McDonough helped Designtex develop an environmentally friendly fabric that is being used to upholster furniture.

Susan Lyons, vice president of design at Designtex, says the fabric line provides a competitive advantage because de-

mand is strong for office products that are environmentally sound. She says the company has been able to surpass strict environmental standards in Switzerland, where the fabric is being made.

One Swiss rule is that textile scraps may not be deposited in landfills, but Lyons says that is not a problem with her company's biodegradable product. Designtex's scraps are made into felt, which is sold to Swiss farmers for use as crop insulation.

Lyons says McDonough is "a visionary" and that he helped the company rethink its entire manufacturing process, with an eye toward both the environment and quality.

Although building design will likely remain the chief focus of McDonough's firm, his work with manufacturers is sure to continue; he recently was signed on as a consultant to Monsanto Co., a St. Louis-based chemical company. He teaches his university students that architects can be at the forefront of a "next industrial revolution" in which businesses, not regulators, will drive environmental improvements. "I think the best way to eliminate regulation is to do it by design." ■

# Competing With Nature

*By Michael Barrier*

You have to wonder, as you step through a door at California Country Trees in Vista, Calif., what Joyce Kilmer would make of it. It may still be true that only God can make a tree, as Kilmer wrote in that famous poem, but Bennett Abrams and Gary Hanick come awfully close.

The door in question leads from their firm's front offices to a large work area—but to get there, you pass through what can only be described as a small patch of rain forest, made up mainly of banyan trees, and complete with jungle cries. It's highly convincing, but almost entirely artificial—or faux, to use the word that Abrams favors.

As Abrams, whose title is design director, says of his trees, "They're all handmade—hand-sculpted, hand-painted," over a steel framework. The "bark" is a proprietary substance—as opposed to the more commonly used fiberglass—that hardens slowly enough to allow for what Abrams calls "carving time." The whole idea, he says, is to give the trees the "nuances and imperfections" that make them seem almost real.

California Country Trees doesn't make fantasy trees, but only reproductions of the real thing; it uses the sobriquet "Museum Division" on its letterhead to indicate the high standard to which it wishes to be held—and it has in fact been making some trees for museums. "We're known primarily for oaks, pines, and banyan," says Hanick, the company's president.

There's one basic reason why customers buy from California Country Trees: They want to put trees where real trees can't grow—in a hotel atrium that lacks adequate natural light, for instance. "This gives them an opportunity to really expand what they can do indoors," Hanick says. The firm is also well-represented at a number of Las Vegas casinos; one, Buffalo Bill's, holds California Country Trees' largest tree to date, a 50-foot oak.

California Country Trees is at the extreme high end of the artificial-foliage industry, which embraces everything from the plastic plants on a discount store's shelves on up to California Country Trees' custom-made creations. "Our major market is architects and designers," most of whom learn about the company by word of mouth, says Abrams.

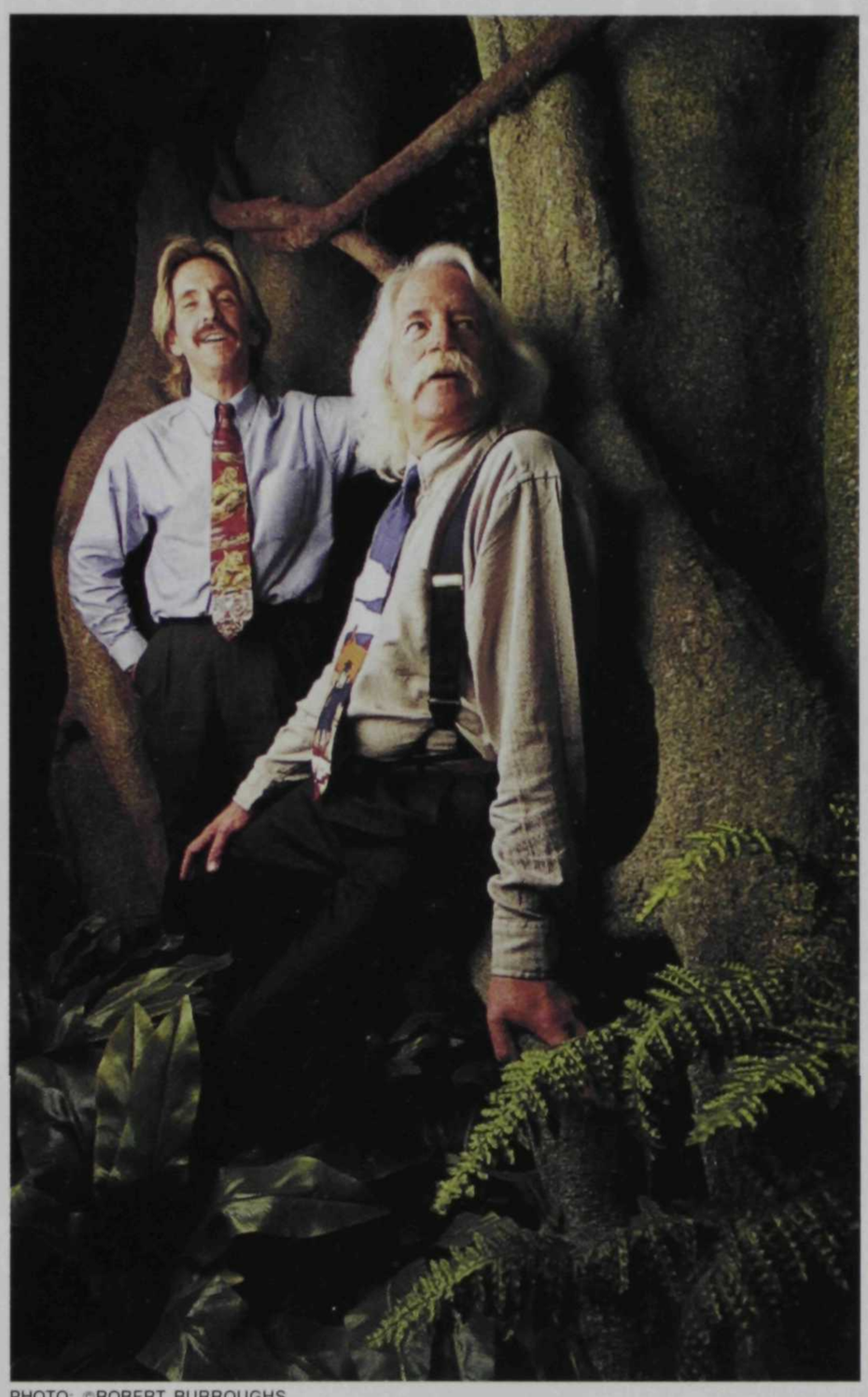


PHOTO: ©ROBERT BURROUGHS

**Money does grow** *on trees for Gary Hanick, left, Bennett Abrams, and their California firm.*

Generally, Hanick says, an architect will "send us a rendering, a concept." Then, often, California Country Trees will make a model, "not only for them to understand what we're talking about, but also for us to figure out the logistics of making this tree." Pricing their work is difficult, he says. California Country Trees has no price list; a single tree can sell for as much as hundreds of thousands of dollars.

California Country Trees does work for private residences, too (expensive ones, you can be sure). Hanick says as much as half of the company's work is now for foreign clients.

The firm has a core of about eight craftsmen who do the finishing work on the trees. Other workers, who actually assemble the trees—welding the frames together or applying the leaves, for instance—are hired as needed.

Hanick and Abrams met in the late '70s, when Hanick was a newly minted MBA and was casting around for something to do. They soon went into business together, as partners in Bennett Abrams Studios. Hanick marketed Abrams' "microcosms"—compositions made of silk foliage and of actual flowers and plants that had been impregnated with wax—to private collectors and high-end retailers, for resale.

The Abrams studio was in Idyllwild, in the mountains near Palm Springs, and a tree limb fell onto it during a snowstorm. Abrams added some silk foliage to the tree limb, "and all of a sudden," Hanick says, "the tree limb became a full-blown tree."

That triggered their interest in making trees as elements in residential interior design. The trees became an added line, and then "just took over," Hanick says, especially after "Macy's discovered us" and the two began making trees for retail stores.

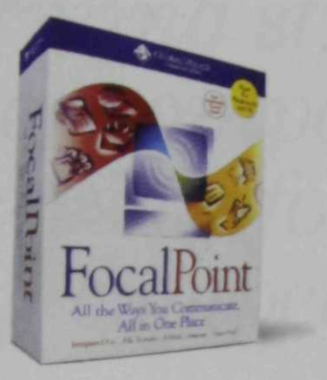
Soon after, Abrams and Hanick incorporated as California Country Trees and began hiring their first employees. They moved from Idyllwild to Palm Desert in 1984, in search of more space, and then last year to Vista, north of San Diego. They now occupy 40,000 square feet in two buildings.

Even though the company now has annual sales of around $4 million, Abrams still feels an artist's satisfaction in the work. "There isn't anything else in the world I'd rather do than what we're doing," he says. "That's a wonderful position to be in." NB

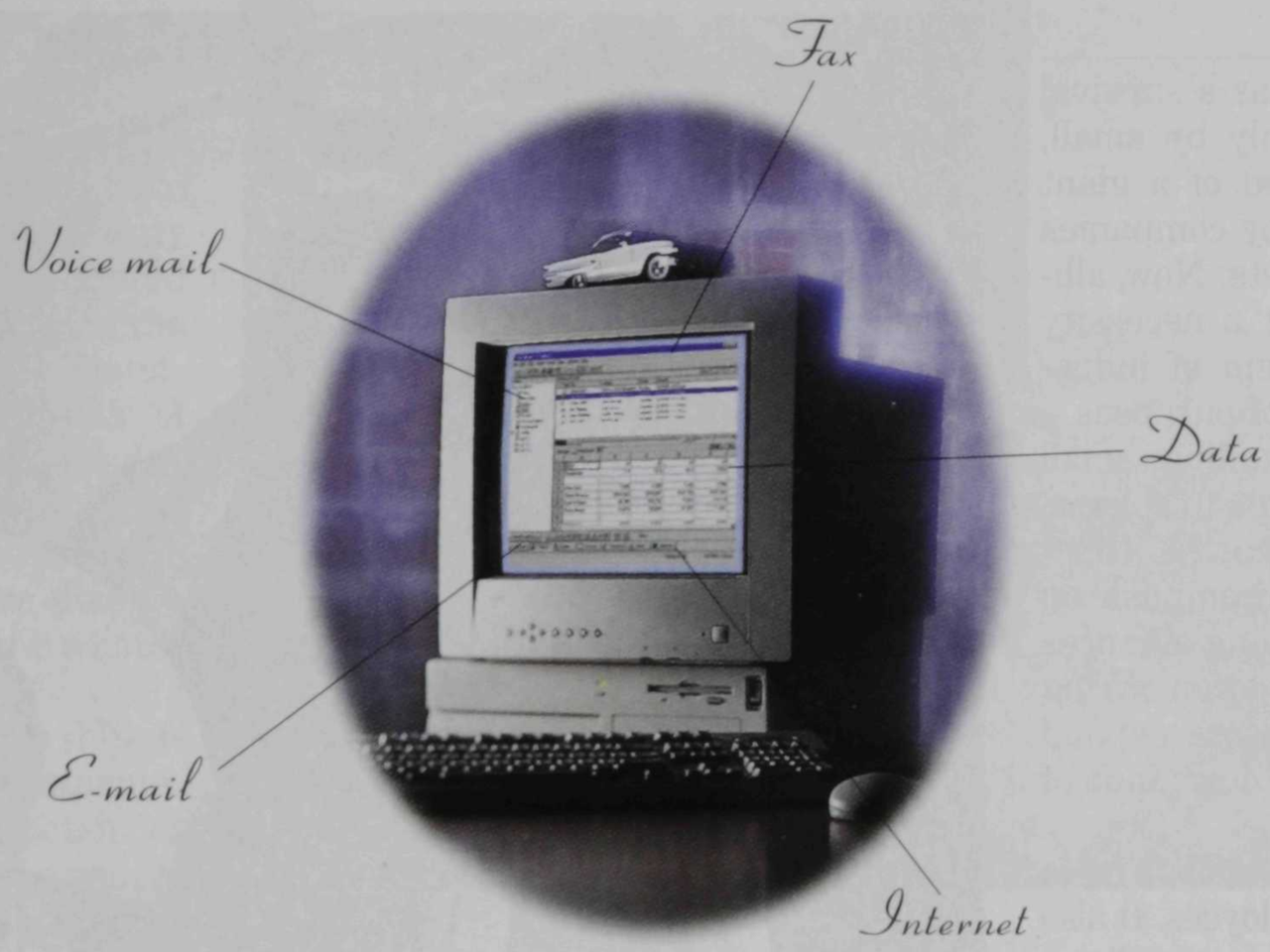
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COVER STORY

# Striking The Right Match

*By Roberta Maynard*

For years, partnering was a survival strategy adopted mainly by small, high-tech firms in need of a giant marketing partner or by companies entering international markets. Now, alliances are quickly becoming a necessity for firms across the spectrum of industries and for a wide variety of purposes.

From biotechnology to retailing, small firms are forming partnerships to achieve goals that would be too costly, time-consuming, or difficult to accomplish on their own. They're also pursuing alliances to encourage product innovation, bring stability to cyclical businesses, expand product portfolios, and forge new kinds of supplier relationships.

An alliance can enable a small firm to expand without taking on employees. It also can provide a way for a large or medium-sized company—after downsizing, for example—to handle growth without increasing its payroll or forming new divisions.

"The business environment today is much different from what it was 10 years ago," says Madelyn Yucht, vice president of the Warren Co., an alliance consulting firm in Providence, R.I. "You are seeing it everywhere—collaborations that you didn't see before. Resources truly are getting scarcer. Competition appears to be very fierce. Businesses are being forced to look for ways to leverage what they have."

The number of alliances among U.S. companies has risen steadily in recent years. Securities Data Co., a Newark, N.J., firm that tracks alliances, puts the growth of such partnerships at 25 percent annually over the past decade.

The shopworn term "strategic alliance" has come to mean almost anything—from




PHOTO: ©SCOTT GOLDSMITH

**By developing alliances** *with key suppliers, the strategic-purchasing team at New Pig Corp. has helped make the firm a leader in the field of absorbent "socks" to clean up industrial spills. Clockwise from bottom right are Doug Evans, Jim McHough, Bill Lidwell, and Curtis L. Douglas.*

# *Forming strategic alliances with other companies is fast becoming a necessity for small firms trying to stay competitive.*





PHOTO: T. MICHAEL KEZA

**Teamed up:** *Walter Fiederowicz, left, chairman of Colonial Data Technologies, and John Backus, president of US Order, formed an alliance to market the Telesmart 4000 phone.*

the simplest transactional relationship to licensing and outsourcing to anything short of a merger. (See the chart on Page 20.) Because of this definitional gray area—one acknowledged and lamented by virtually everyone involved in the teaching, preaching, studying, or counting of alliances—statistical analysis of these partnerships has been hampered.

In the words of one joint-venture attorney, "The one thing you can be sure of is that when someone says they're doing a strategic alliance, you don't know what it is."

To purists, though, a partnership is truly strategic only when two companies have examined their core competencies and future paths and have found a source of synergy and areas of complementary strengths. They share the risks and benefits. To one degree or another, in a carefully considered way, they cast their lots together.

Following are examples of how some small businesses have put into practice the partnership strategy of the 1990s, and why your company might want to consider doing the same.

### A Way To Improve Purchasing

New Pig Corp., a 10-year-old firm in Tipton, Pa., wanted to make itself a world-class competitor, but having merely *good* supplier relationships wasn't enough to bring about the dramatic changes necessary to achieve that goal.

The 300-employee company has grown rapidly as a leader in the manufacture of contained absorbents—sock-like bundles of absorbent materials used to soak up industrial spills. New Pig set down a whole host of goals it deemed necessary to propel the company forward.

Because New Pig sells 3,000 products through its catalog and depends on its suppliers for some element of every item, the firm's management decided to focus on improving the firm's purchasing operation.

The company's goals included reducing the time it takes to introduce products, improving product quality, bringing about joint problem solving with suppliers and joint adjustments to market conditions, and involving suppliers early in product development.

To meet those goals, management decided, the firm had to go beyond traditional relationships with its key suppliers and develop strategic alliances with them. New Pig wanted to establish a level of communication with suppliers that fostered continuous improvement and problem solving.

As a starting point, the company began measuring suppliers' performance and, in turn, asked its 30 largest-volume suppliers to evaluate New Pig as a customer.

For these evaluations, absolute candor was the company's guiding principle. "It was quite shocking," says Doug Evans, New Pig's director of strategic purchasing. "We didn't have as close a relationship with suppliers as we thought we did."

His team discovered, for example, why a longtime vendor consistently failed to come up with the innovative approaches that New Pig sought. "We found out that [our people] always faulted them for making mistakes, so they never offered us anything that wasn't time-tested and perfect," says Evans. "Without even knowing it, we were discouraging them from bringing us new ideas."

As such problems began to be addressed, relationships began to improve. In the 18 months since the program has been in place, several joint projects with suppliers have led to improved processes and reduced costs; one change in a shipping method, for instance, produced savings of hundreds of thousands of dollars.

"What's different about this approach is the depth of the relationship," says Evans. "With the usual customer-supplier relationship, you're talking about a phone call as your only contact. With our strategic partners, we have tons of communications, we sit down with product-development teams, and we go out and look at [their] tooling."

The effort that goes into these relationships explains why only 20 to 50 of New Pig's 800 suppliers will be strategic partners. "Like peeling back an onion, you

learn things about each other's operation," says Evans. "We've developed a synergy and are moving forward together to cut costs, be more efficient, and increase profits. There's a ton of opportunity out there if you talk."



### Separate Firms, Similar Visions

It was the promise of synergy that brought together two other companies—US Order, in Herndon, Va., and Colonial Data Technologies Corp., in New Milford, Conn.

US Order, a 100-employee software developer, had come up with a smart telephone that sends electronic mail, transmits messages to pagers, and allows for electronic banking and shopping. "We didn't want to touch manufacturing," says John Backus, the firm's president. "We had no manufacturing expertise and no distribution channels to telephone [companies]."

Colonial Data, a manufacturing firm with 150 employees, had both. "US Order had devoted resources to [research and development] that we hadn't," says Colonial Data's chairman, Walter Fiederowicz. "They were out there, calling on our same accounts. We had a vision of where we saw the product migrating, and US Order had a similar view. We developed a rapport."

The result: US Order is licensing its phone technology to Colonial Data to market to phone companies, and US Order will market to other groups of customers, including banks and paging companies. Each partner will pay the other 10 percent of the profits from products they sell in their respective markets.

Production of the Telesmart 4000 has just begun. US Order expects sales this year of at least $25 million, up from $5 million last year. Half of it is expected to be a result of the alliance, Backus says. Colonial Data says that one-fourth to one-third of its projected 1996 revenue of $110 million will be attributable to the smart-phone deal.

### Attaining Markets And Visibility

Getting products to market, particularly technology products, has driven small-business alliances for years. Today, 45 percent of all alliances in the United States are in biotechnology, telecommunications, and electronics, according to the Booz•Allen & Hamilton consulting firm, based in McLean, Va.

"Virtually everything we do is partnerships," says Tom Parmeter, president of Protein Polymer Technologies, Inc., in San Diego. The $1 million, 24-employee biomaterials manufacturer is working in the new field of tissue repair and regeneration.

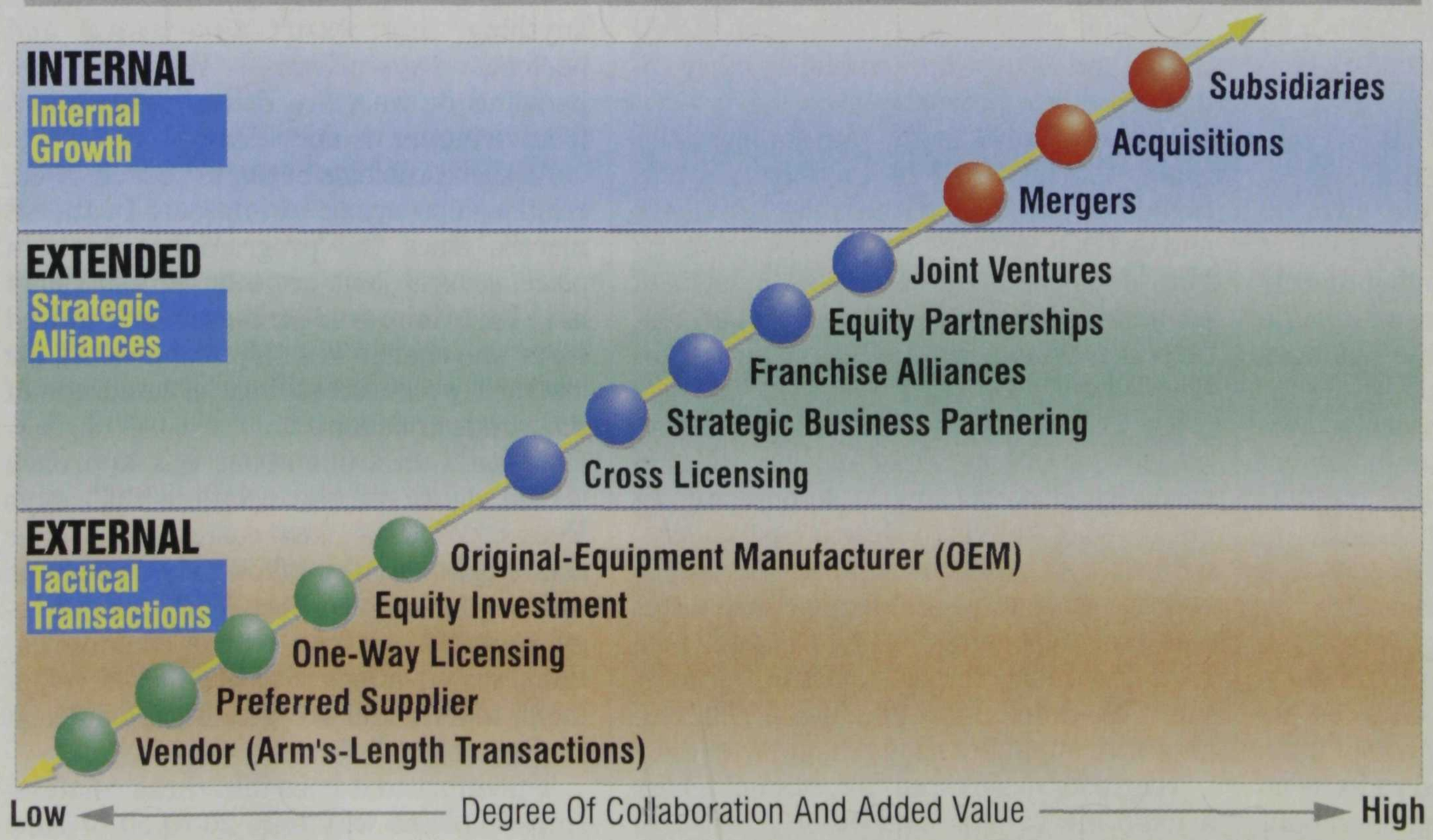
"Alliances are critical for us because we can't build these markets [needed to sell the product]," Parmeter says. "The problem is we're always struggling for money, looking at a precipice 18 months out. As a smaller company, what you're trying to do is get a little visibility." Parmeter has deals in the works with divisions of Johnson & Johnson and other large corporations.

Often such arrangements give small firms the freedom to continue a project that has been stalled for lack of funding. A partnership offers cash needed for research and development or product testing; in exchange, the large corporation may get an addition to its product line or may acquire equity in the smaller firm.

Moreover, lenders expect small firms to have links with major corporations, says Jim LaTorre, leader of the high-tech team at Coopers & Lybrand, a management consulting firm based in New York City. "I don't have a single technology-driven company in my portfolio that isn't looking for a strategic partner," says LaTorre. "Investment bankers won't look at you unless you have two elements: a [viable] product and a strategic partner. To have credibility, that is required."

## The Spectrum Of Business Relationships

The range of business relationships as shown here suggests that true collaborative partnerships fit somewhere between straightforward selling and licensing arrangements (at the lower end of the diagonal scale) and the fusion of two companies (at the upper end). The higher that a business relationship appears on the scale, the greater its level of collaboration and, ideally, added value.




SOURCE: THE WARREN CO., PROVIDENCE, R.I.

CHART: ALBERTO PACHECO

### Product Linkages

Another incentive for companies to form alliances is the need to stay nimble in fast-moving industries where marketplace demands change quickly. Mohan Nair, president of an accounting software company, ABC Technologies, Inc., in Beaverton, Ore., observed that in his industry, customers were not accepting disparate services; they wanted complementary products put together for them.

He saw a valuable strategic fit between his company, whose accounting software was already a familiar tool for operating managers, and Cognos Inc., a Canadian company with headquarters in Ottawa and in Burlington, Mass.; its data-retrieval system had widespread use among chief financial officers.

If he could link his financial product with Cog-

*Continued on Page 24*

# The New Supplier Partnership: An Inside Story

A different twist on partnering—one that was pioneered by Bose Corp., an electronics manufacturer in Framingham, Mass.—gives suppliers an inside look at their customers' operations and frees customers from having to tell suppliers what's needed and when.

In the same way that "just-in-time" was designed to link plant and floor operations in order to match manufacturing and inventory needs, Bose developed the JIT II concept to reduce the costs and time involved in day-to-day transactions with suppliers.

Bose created a seamless flow of communication by bringing in key suppliers as full-time participants in its operation, working on-site daily. So-called in-plants have a Bose badge, can play softball on the company team, and have access to the customer's data and design, engineering, and operations teams.

"These are not clerks," says Lance Dixon, formerly Bose's director of transportation procurement and the developer of JIT II. "These people have total authority to create an order, to make it larger and smaller. All they have to do is keep my materials going," he says. "There are so many efficiencies, including eliminating material planners and buyers; it goes right to the bottom line."



PHOTO: ©RICHARD HOWARD

Of the 12 suppliers with which Bose has this kind of relationship, four have revenues under $20 million. "It's a great advantage for a small company—it actually levels the playing field," says Dixon. "A $10 million company can provide its two key customers with the same level of service as a $1 billion company."

To become a partner, a supplier company needs just three things, Dixon says: to be regarded as competent—preferably cutting-edge—in its specialty; basic computer capability; and a willingness to place a key employee at the host company and to take responsibility for what happens.

"I'm a believer. It works," says Chris LaBonte, materials manager for G&F Industries Inc., a custom injection molder in Sturbridge, Mass. LaBonte was Bose's first supplier in-plant. He worked in an office at Bose, placing and signing off on purchase orders for his own company.

"It's a fresh, nontraditional relationship based on trust," LaBonte says. "After people get comfortable in their partnering, they start turning up rocks that wouldn't have been turned up and revealing causes that were sacred cows."

At the same time, he says, an evolution takes place for the supplier: Customers make the suppliers faster and better than they would have been. Because of JIT II, says LaBonte, G&F's standard cost to Bose has stayed the same or declined over nine years without his company losing market share.

Dixon, who now heads Bose's new nonprofit JIT II Educational Research Center, realizes that this level of closeness may cause concern for some executives. But Dixon isn't worried about security. For one thing, proprietary information on computer systems is effectively walled off from in-plants' eyes, he says. On the legal side, a five-page document spells out what suppliers' in-plants can and can't do with regard to proprietary, operational, and other matters.

The concept, which Bose unveiled a few years ago, has caught on in other large companies, including IBM, as well as in small firms.

After getting his feet wet at Bose, LaBonte suggested that his company have an on-site presence at a company that makes plastic goods for children. He hoped for an opportunity to supply for just one product line.

"We started doing six or seven [inventory] turns. Within six months of having someone on their floor, we turned 21 times," he says. And he has gone "downstream" with JIT II, bringing in in-plants from his own suppliers.

Because of the intensity of the relationships, G&F will be involved in only four or five such partnerships. "There is a limit to how many you can do," LaBonte says, "These relationships really pressure you. You can't pull a rabbit out of a hat for every customer all the time."

But that handful of relationships has been critical to G&F's growth to $20 million from $2 million nine years ago. Says LaBonte, "The more we trust each other, the more opportunities we find."

**"It works." An in-plant supplier setup "is a fresh, nontraditional relationship based on trust."**

**—Chris LaBonte, G&F Industries**

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For more information about JIT II, call Bose's JIT II Educational Research Center at (508) 766-4050, and see the list of resources on Page 28.

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COVER STORY

*Continued from Page 20*

nos' software, Nair reasoned, both companies would benefit by getting immediate access to the other's established market.

But Nair wanted more than the original-equipment-manufacturer relationship that ABC already had with Cognos. "Once strategies match like that," he says, "there's the potential for something greater—not just a product for us, but alignment of the company and its people together toward a shared goal."

Their partnership allows ABC to sell its clients a "cohesive strategy." ABC bundles the Cognos product with its own and markets them. The companies share their customer lists and conduct customer conferences together. Salespeople from both companies coordinate their efforts and together make sales calls to clients. The two companies have linked their product life cycles and have developed a joint strategy for major accounts.

Nair expects the partnership to provide a substantial part of his firm's $8 million in revenue this year. In terms of sales volume, ABC is among the top five of the 130 companies selling Cognos' product. In the next 12 months, Cognos expects the ABC partnership to result in sales of tens of thousands of copies of its software.

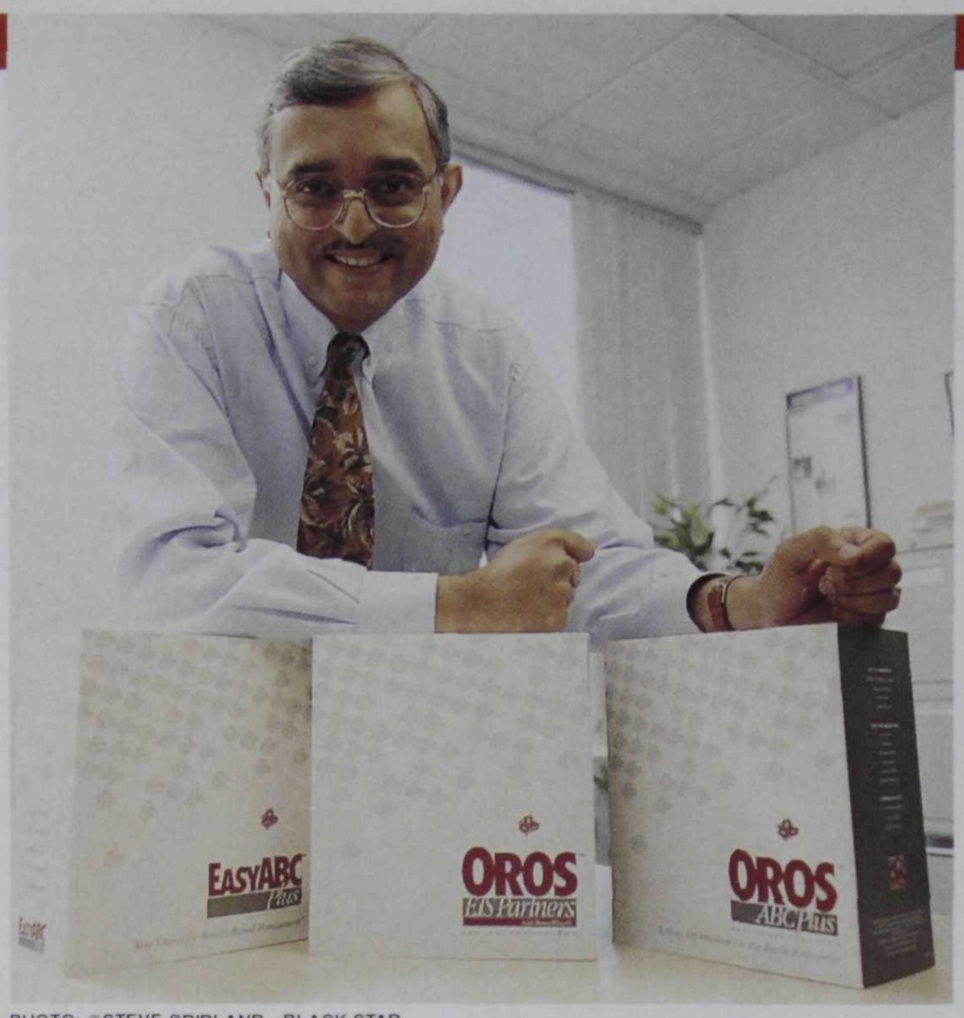



PHOTO: ©STEVE CRIDLAND—BLACK STAR

**Linking his software product** *with another firm's was a valuable strategic fit, says Mohan Nair, president of ABC Technologies.*

Forming a long-term partnership with another company of equal or smaller size requires planning, internal restructuring, and commitment. Planning an alliance with a larger company requires even greater diligence, says Gene Slowinski, director of strategic-alliances studies at Rutgers, the State University of New Jersey, and a partner with the Alliance Management Group, a consulting firm in Gladstone, N.J.

"Especially in partnering with large firms, small and midsize businesses must ensure that their partners have the exact same strategic intent," says Slowinski. "I've learned a great deal about alliances from marriage counselors. The farther apart the partners' expectations are, the less likely it is that they are going to succeed."

In a 10-year study of 50 such alliances, Slowinski found a discouraging rate of success. About 25 percent of the alliances were considered successful by both partners; 50 percent didn't meet the stated objectives. The remaining 25 percent, he says, were disasters.

Key reasons for the failures were unequal levels of technical or business compe-

# When Corporate Cultures Clash

Every alliance begins with the recognition that the two companies have a good strategic fit, a complementary match of core competencies. Often overlooked, though, is how well their ways of working will fit together day to day.

Before entering into an agreement, each potential partner should consider the other's organizational structure and compare it with his own. Is it hierarchical or collaborative? Is work done by teams or individuals? Are core values compatible? For example, is one company focused on the customer and the other on investors' needs? What about everyday decision making?

If the corporate cultures differ—one partner wants to send each problem through channels, for example, and the other wants to solve each one quickly on the spot—the conflict may inhibit success.

"Over time, incompatibility will be apparent," says Mike Hollister, a partner in Greene & Hollister, Inc., a management consulting firm in Boca Raton, Fla. "Most of the make-or-break issues will surface under pressure when a joint problem arises and risks are high," he says. "And that's when people will operate intuitively, according to the demands of their own business culture. It happens more frequently than it doesn't happen."

In one case, an alliance based on a perfect strategic match failed after just nine months because of problems with the pivotal issue of design collaboration. In one company, the design staff worked from 9 a.m. to 5 p.m.; in the other, employees worked around the clock until projects were completed. The result was a buildup of resentment until, eventually, each group broke off on its own, defeating the purpose of the alliance.

Hollister's own firm failed to look at these kinds of issues when putting together its alliance. "We needed to add to our competencies by forming an alliance with another company," he says. His company undertook a partnership with another consulting firm to offer a greater range of services to their combined client base. The conflict arose when the partner advised the client to structure compensation plans so that they would enrich the top executives, while Greene & Hollister was suggesting a plan that rewarded all employees. The result was a confused and unhappy client.

"We wanted their partnership so badly that we didn't think through the differences in how [both companies] do business," says Hollister. "If we weren't so driven to meet our strategic need, we could have ferreted that out. We almost lost a good client over the issue."

Hollister's advice to companies planning an alliance is to spend time talking to the other company in three meetings at three different levels of authority and in three different situations.

If there is already good chemistry between top executives, having them meet at the golf course each time will only reinforce that personal relationship and not get to the basic operational issues of each company, he says.

Instead, the point people at each level should talk to their counterparts about how they handle decision making, problems, and communications, Hollister recommends. He adds that they should try to get an understanding of the hidden belief structure that underlies everything they do.

A firm can add to its understanding of the other company's workplace by simply observing office artifacts: Are the executive offices cloistered, or is there community work space? How is technology used? Try to learn whether the mission statement on paper matches the one in practice. Such things can be important clues to a company's compatibility as a partner. Often, says Hollister, it's the fine points that turn out to be deal-breakers.




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COVER STORY

# The Makings Of A Successful Alliance

Well-conceived alliances begin with characteristics that motivate both partners, according to the Warren Co., an alliance consulting firm in Providence, R.I. Here are the ingredients for successful partnering:

✔ **Critical Driving Forces.** There must be essential strategic forces that push the alliance partners together. Without these forces, there is no reason for an alliance.

✔ **Strategic Synergy.** Always look for complementary strengths in a potential partner. For the alliance to succeed, the two partners should have more strength when combined than they would have independently. Mathematically stated, it must be "1+1=3." If it isn't, walk away.

✔ **Great Chemistry.** Your company must have the managerial ability to cooperate efficiently with another company, which in turn must have an equally cooperative spirit. There must be a high level of trust so executives can resolve difficulties.

✔ **Win-Win.** All members of the alliance must see that the structure, operations, risks, and rewards are fairly apportioned among the members. Fair apportionment prevents corrosive internal dissension.

✔ **Operational Integration.** Beyond a good strategic fit, there must be careful coordination at the operational level where plans and projects are implemented.

✔ **Growth Opportunity.** Is there an excellent opportunity to place your company in a leadership position—to sell a new product or service, or to secure access to technology or raw materials? Does one partner have the know-how and reputation to take advantage of that opportunity?

✔ **Sharp Focus.** There is a strong correlation between success of a venture and clear overall purpose—specific, concrete objectives, timetables, lines of responsibility, and measurable results.

✔ **Commitment And Support.** Unless top and middle management are highly committed to the success of the venture, there is little chance of success.

tence and the fact that the project wasn't considered central by both companies.

The failure rate, however, was partly the result of companies being untrained in how to make alliances work, Slowinski believes. That belief is supported by studies of alliance partners' return on investment, conducted by Booz•Allen & Hamilton. Peter Pekar, senior adviser to the firm, says: "We have found that the more a company does alliances, the higher the return on investment. That shows that companies get better by doing them. That's not true of acquisitions, where the rate of return is the same regardless of how many are done."

Among the hard lessons that experience has taught is that without ongoing attention and focus on common goals, partnerships wither and die.

"The alliance really begins after the deal has been signed," Slowinski says. "Where alliances fail is at the operating or implementation level." Among other things, he says, partners have to sort out how to link their decision-making processes, how they are going to resolve conflict, and how to build in the flexibility to make incremental improvements.

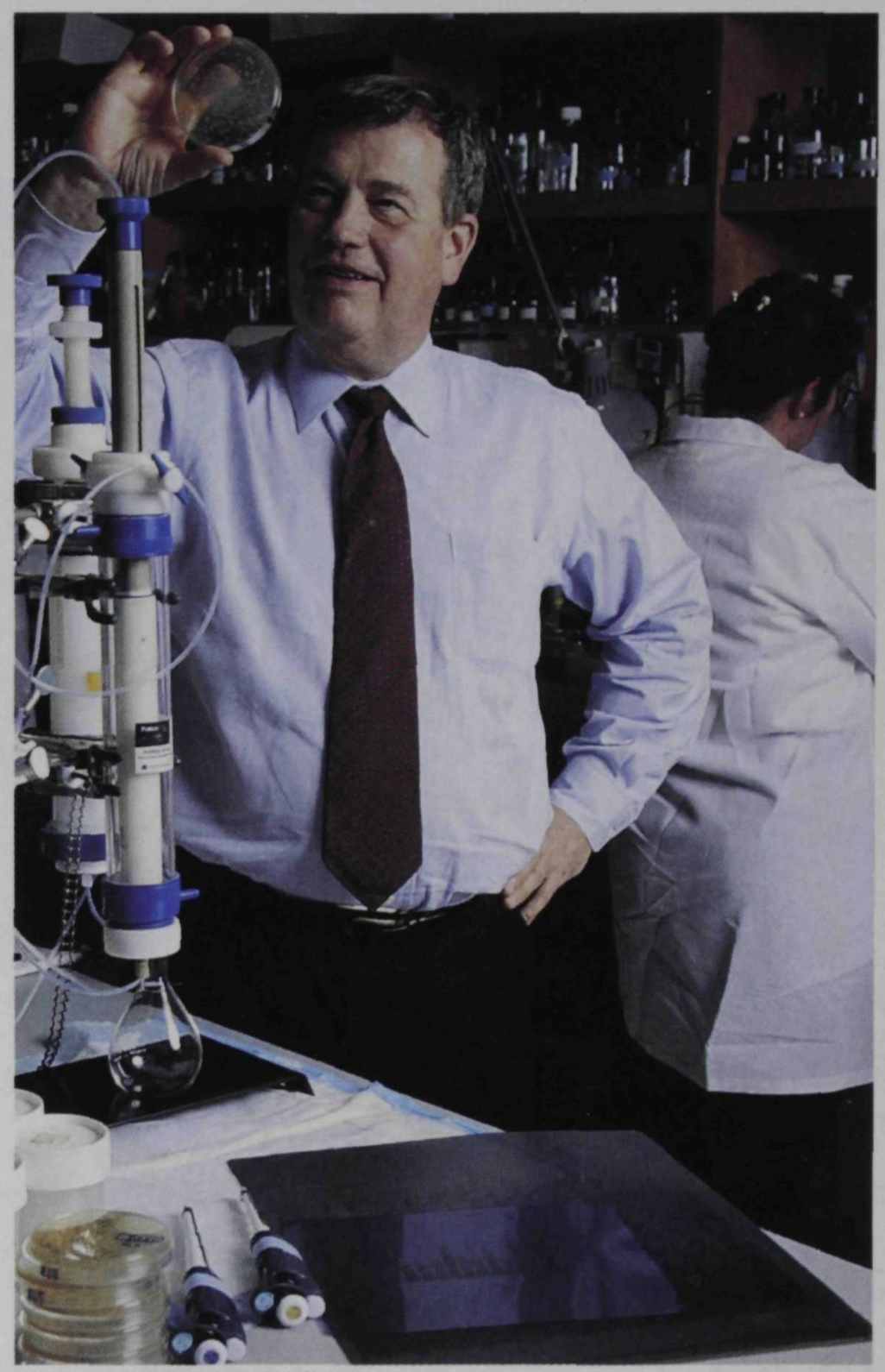


PHOTO: ©JOHN ALEXANDERS—BLACK STAR

**"Virtually everything** *we do is partnerships," says Tom Parmeter, president of biomaterials manufacturer Protein Polymer Technologies, Inc.*

To keep their alliances thriving, corporations have begun to develop organizational structures to support them and have come to view the ability to form and manage alliances as core skills. Disney and Hewlett-Packard, for example, have alliance executives. Lotus and Xerox, whose early alliances were handled within business-development departments, have set up separate alliance groups. Smaller companies, too, must designate a core group—even if it's not a formal structure—to manage and monitor their partnerships.

Regardless of a company's size, the key to success, says Warren Co. consultant Yucht, is to have a champion of the alliance—someone who believes in it—to coordinate activities, provide consistency, and be accountable. The best person to manage the relationship, she says, is the one who set it up.

Lack of regular communication between the point people on both sides is also a common contributor to the breakdown of alliances, Yucht says. "I hear companies say that their alliance is not working, and I ask, 'How long since you talked to your alliance partner?' When the answer comes back 'It's been a year,' that explains it," she says.

In the years ahead, the companies that may be under the greatest pressure to form alliances will be small firms that are suppliers to larger companies, and those that haven't explored the possibility of such partnerships may find themselves at a disadvantage.

"There is an overwhelming shift toward consolidation of suppliers because of internal cost cutting. It puts pressure on small companies to pony up and become partners," says Lawrence Friedman, director of Huthwaite, Inc., a sales and marketing consulting firm in Purcellville, Va. Friedman, who also is co-author of *Getting Partnering Right* (see the list of resources on Page 28), sees this pressure as an extension of the quest for productivity.

"At one time all you needed for success were good products and a sales force that could sell them skillfully," Friedman says. "Today it's a different game. Customers

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continue to reduce their supplier base at an even faster pace, and they're locking in long-term relationships with a handful of carefully chosen suppliers."

Retailers, for example, trying to develop fewer, better-selling products, are beginning to overcome a tradition of arm's-length relationships with suppliers. "As the supply chain is pared, you won't have a third, fourth, or fifth brand," says James E. Morehouse, vice president of supply-chain-integration practices in the Chicago office of A.T. Kearney, a management consulting firm.

"There will be a couple of solid brands and a house brand," he says. To provide those, retailers will want stronger relationships with their suppliers. Because technology now allows suppliers to have access to customers' inventory and forecast data, suppliers often can manage retailers' inventory more efficiently than the retailers themselves can.

Small companies hoping to find large alliance partners need to be real standouts, says Friedman. Large companies look for reliability of service, competitive pricing, and technological competitiveness, he says. The small firms must also be able to share information, and not only from a computer-systems perspective, he says. They must have people with the knowledge and ability to monitor a customer's inventory systems or incoming customer information.

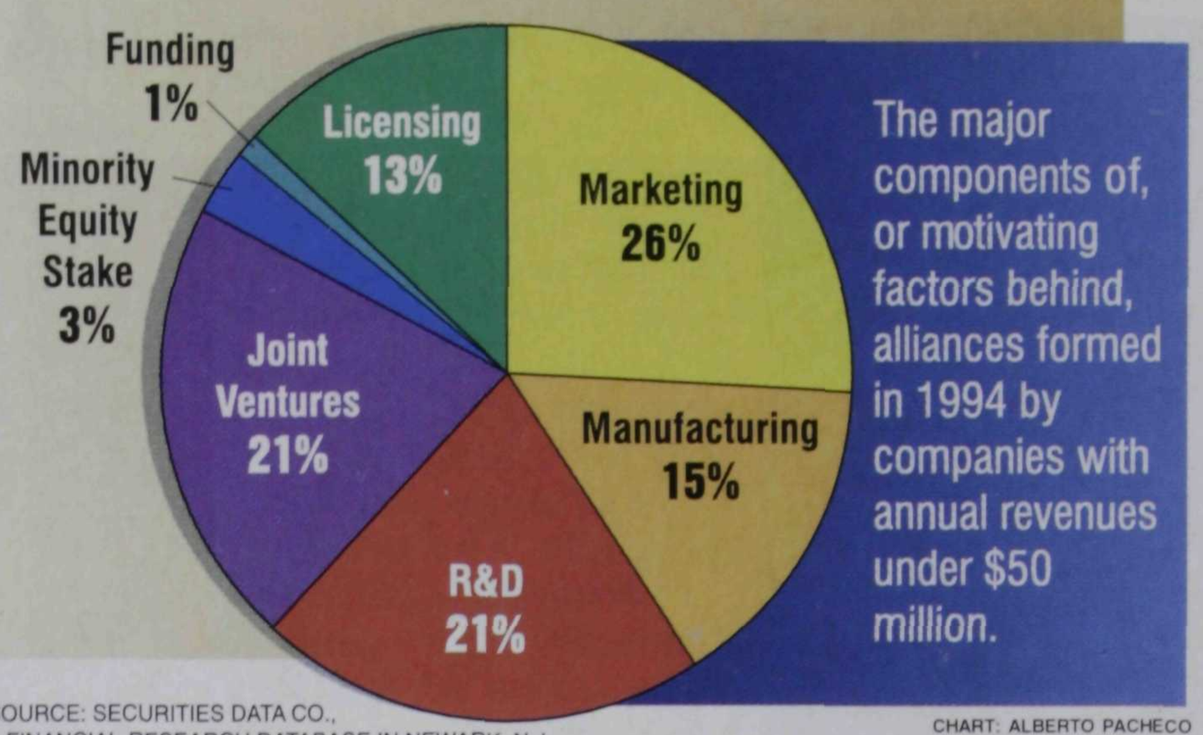
Companies are looking for something else, too. "When a Motorola looks for small companies to partner with, [it's] looking for a company with a world-class vision," says Friedman. "A clean balance sheet, track record of growth, and commitment to quality—those are the characteristics of world-class companies." (For a new twist on supplier partnering, see the story on Page 21.)

Over the years, "partnering has evolved from a thing to do to something with quantified impact," says Friedman. Forming alliances is well-established and continues to grow in high technology, logistics, distribution, and professional services. In some industries, he says, the shift toward partnering is just emerging, especially in commodities such as paper and office supplies, where cost pressures are severe.

But the major partnering activity will be in industries facing deregulation, particularly telecommunications and utilities, Friedman says. "Those are the ones that I predict are going to be the real partnership stories in the next five years." NB

*To order a reprint of this story, see Page 82. For a fax copy, see Page 5.*

## Types Of Small-Firm Alliances




SOURCE: SECURITIES DATA CO., A FINANCIAL-RESEARCH DATABASE IN NEWARK, N.J.

CHART: ALBERTO PACHECO

# What To Read, Where To Go

The following resources can help you learn more about how to develop and maintain successful strategic alliances.

### Publications

*Getting Partnering Right: How Market Leaders Are Creating Long-Term Competitive Advantage,* by Neil Rackham, Lawrence Friedman, and Richard Ruff; published by McGraw-Hill; $22.95.

*World Class,* by Rosabeth Moss Kanter, shows how companies can benefit from forming alliances; published by Simon & Schuster; $25.

*JIT II: Revolution in Buying and Selling,* a book on supplier partnering, by Lance Dixon and Anne Millen Porter; published by *Purchasing Magazine*; $29.95. To order, call (617) 964-3030.

*Business Alliances Guide,* by Robert Porter Lynch; published by John Wiley & Sons, Inc.; $37.50. To order, call 1-800-225-5945.

*The Alliance Analyst,* a 16-page, biweekly newsletter; geared to senior executives and alliance managers; $590 a year. To order, call (215) 546-2441.

*Is Your Strategic Alliance Really a Sale?* by Joel Bleeke and David Ernst, from the January-February 1995 issue of the *Harvard Business Review.* A copy of the article, Reprint No. 95102, can be ordered for $5.50 by calling 1-800-988-0886.

*Sahakian's Key Partnering Checklists,* by Curt Sahakian, published by the Corporate Partnering Institute, in Skokie, Ill.; $99. To order, call (847) 676-9792.

### Forums And Conferences

■ Clearinghouse for Strategic Alliances, Trade & Equity Investment is a database of companies seeking partnerships and investments. It is a joint project of the National Business Incubation Association, Coopers & Lybrand, and Dun & Bradstreet.

Companies pay $300 for a one-year on-line listing. The service is free to companies affiliated with an incubator organization. For information, call the clearinghouse's director, Tracy Corrigan, at (614) 593-4331.

■ The Partnering Forum is a new association of partnering managers and executives. For information about its services, call 1-800-948-1700.

■ "Advanced Technology Transfer Conference & Exposition" is a forum for companies offering technology for transfer or seeking strategic alliances. It will be held May 14 and 15 in Tysons Corner, Va. For information, call the sponsor, Technology Catalysts, at (703) 237-9600.

■ "entex 96" is a strategic-partnering forum for entrepreneurs, to be held May 22 and 23 in New Orleans. It is sponsored by the Center for Business Innovation and the National Business Incubation Association. For information, call Keith Molzer at (816) 561-2406.

■ An American Management Association three-day seminar, "Establishing International Strategic Alliances and Joint Ventures," offers information on how to structure international and domestic alliances.

Seminars are scheduled through 1996 in Dallas, New York, Chicago, San Francisco, and Washington, D.C. For dates and costs, call the association at 1-800-262-9699.

CRIME PREVENTION

# The Brave New World Of Business Security

*Gee-whiz products and technology-based services are giving small firms new crime-stopping options.*

*By Dale D. Buss*

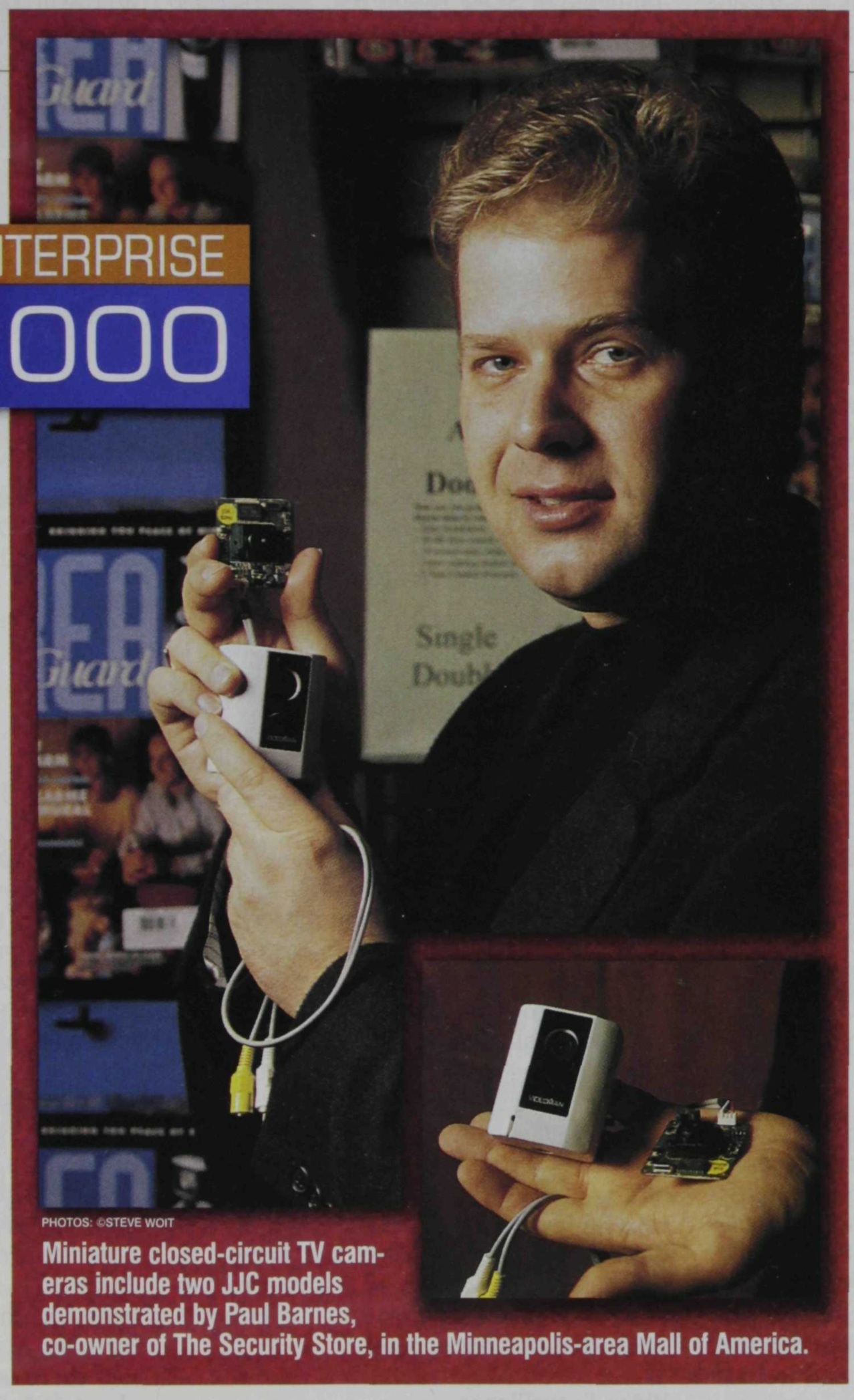
When Jack Parker installed two video cameras to continually pan the parking lot of his Landmark Restaurant in Fresno, Calif., a little over a year ago, his intention was simply to make his customers feel secure. More and more patrons had been telling him that they didn't feel safe when heading to their cars because of aggressive panhandlers they encountered. Some feared they might even cross paths with more-violent individuals.

By installing the monitors above the restaurant's bar, his bartenders could easily watch over patrons. Soon, however, customers joined the effort, keeping an eye on the monitors to help out one another. Eventually, some patrons began to regard watching the parking lot not only as a security measure but also as entertainment of sorts.

"Sometimes it competes pretty well with what's on TV for the attention of my customers," says Parker, who invested about $2,600 in the cameras and monitors.

Parker's decision to install the cameras illustrates the growing determination of small-business owners to address head-on the safety concerns of their employees and customers. And his customers' enthusiastic response underscores Americans' increasing comfort level with a more-aggressive approach to crime.

Such attitudes are signs of a growing belief that businesses and their customers can make themselves safer in a society that seems increasingly criminal and dangerous.




PHOTOS: ©STEVE WOIT

**Miniature closed-circuit TV cameras include two JJC models demonstrated by Paul Barnes, co-owner of The Security Store, in the Minneapolis-area Mall of America.**

If statistics were their guide, however, Americans would be feeling more physically secure these days than they have in years.

According to the latest FBI statistics, the nation's law-enforcement agencies reported a 1 percent decrease in serious crime for the first six months of 1995 compared with the first six months of 1994, and that followed a 2 percent decline for all of 1994 compared with 1993.

Despite that encouraging trend, businesses and individuals continue to spend increasing amounts of money trying to protect themselves against crime.

According to the Security Industry Association, a trade group based in Alexandria, Va., growth in the security products and services business is about 6 percent a year, and dealer sales for the major portions of the industry climbed to more than $11 billion last year from more than $9 billion in 1991.

With statistics showing that serious crime has tapered off, why is spending for personal and business security on the increase? Analysts offer several reasons for the apparent incongruity. Most important, they say, is that while many types of crime actually are easing, Americans still perceive criminal activity as an increasing threat.

"The more crime that people hear about and the media report on, the more people start to think about doing something for themselves," says Jim Paletz, president and owner of The Safety Source Inc., a Plymouth, Minn., company that sells security devices through catalogs.

After Americans watched in horror as crime rates rose for decades, they are going to want to see a steeper, longer decline before they're convinced that anything has fundamentally changed, say experts on crime.

"Crime went past Americans' threshold of pain so long ago that even a decline of 10 percent to 15 percent wouldn't change how people feel about their own personal security," says Albert Janjigian, principal of STAT Resources Inc., a Brookline, Mass.,

*This story is part of a continuing series on managing at the turn of the century.*

research and consulting firm that specializes in the security business.

Liability concerns are also motivating companies to invest in security measures. "Business owners know that if they have just one incident that could have been prevented by more attention to security, it could cost them dearly in terms of liability," says Jerry Aris, president of Citizens Against Crime, in Dallas. The firm has 40 franchised operations around the U.S. that give seminars for business on crime-thwarting techniques.

The declining cost of electronic and microprocessor-based technologies and the increasing variety and availability of new products are also fueling business interest in security measures.

The cost decline has enabled small firms to buy many types of sophisticated devices that once were affordable only to large companies. And specialty retail outlets are popping up around the country. Among them is Security World, a chain of eight stores owned by Winner International Corp., a Sharon, Pa., company that popularized The Club, a device designed to thwart car theft.

Of course, security guards still account for a huge segment of an industry that is growing in nearly every respect. There were about 1.5 million private security guards in 1990, when they outnumbered public law-enforcement officers by a ratio of 2-to-1. And that ratio is expected to grow to nearly 3-to-1 by the year 2000, according to the *Hallcrest Security Report*, a McLean, Va.-based monitor of the industry.

Central alarm systems operated by Honeywell Corp. and others also are a huge part of the business, accounting for more than $3 billion a year in sales, according to the National Center for Policy Analysis, a Dallas-based think tank.

But when small firms are deciding how to spend money for security, they often turn to the gee-whiz new products and technology-based services that are driving the security industry's growth. Right now, two technologies appear to be the hottest: access-control technology and closed-circuit-television (CCTV) surveillance systems.

## Access Control

Computer-controlled systems enable a company to regulate who gains entry to what parts of a facility at what times. With such systems, according to their manufacturers, a firm can dramatically stem internal theft of merchandise and information while cost-effectively controlling external access to the premises at night and on weekends.

"Business owners want to be able to say, 'This is my space, my company, the home for me and my employees, and I want control over who comes and who goes where, and just what goes on inside,'" says Janjigian of STAT Resources. "Not so they can play Big Brother, but to keep themselves and their employees safe."

For example, the EntraPass system, manufactured by Kantech Systems Inc., costs about $2,000 per door. It consists of a software program that can be operated on any personal computer, cable connections to and among the doors that are to be regulated, "proximity" cards for each employee, and card readers at each door.

When a card holder comes within 2 feet of a reader, the reader senses data in the card and transmits it to the computer. The data pertains to whether the person to whom the card was issued is authorized to enter that place at that time; if entry is permitted, the door opens.

## Video Surveillance

In the widening array of CCTV products and services is one offered by VideoWatch LLC. For an initial investment of about $6,000 in equipment and a monthly fee of $100 to $300, a business owner anywhere in the United States can gain live, continuous video surveillance of the company's premises by the staff at VideoWatch's central monitoring station, in Bethesda, Md.

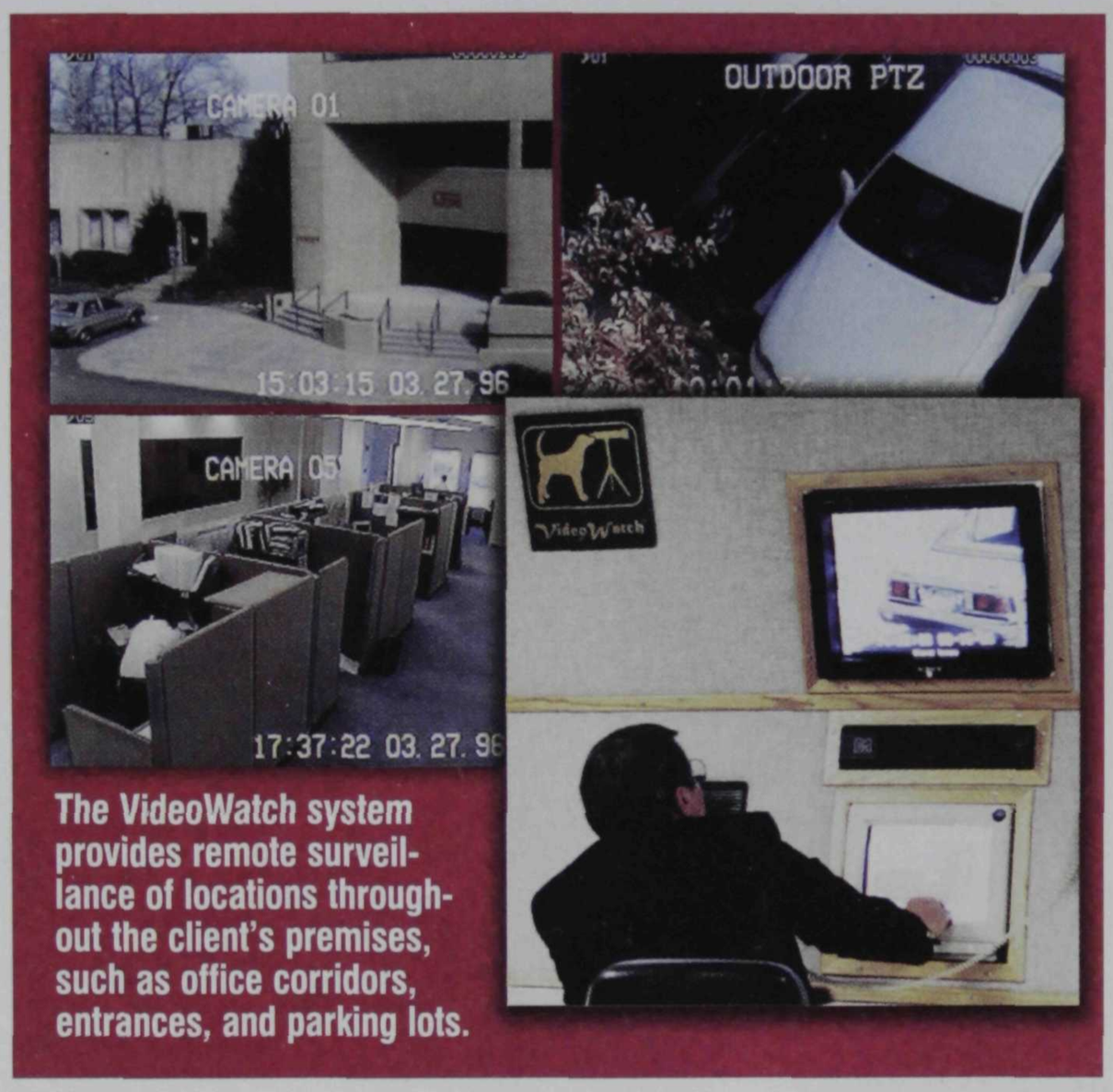
If a break-in or a hold-up occurs, a VideoWatch staffer can immediately contact police near the business, narrate the activities as they unfold, describe any details on the intruder, and even fax to police a still image from the video transmission.

For an extra $1,000 worth of equipment, clients can add an "intrusion-deterrence" feature: VideoWatch will transmit prerecorded, increasingly urgent audio warnings to trespassers to leave the premises and will notify police if the commands aren't heeded.

The service quickly pays for itself when its cost is compared with that of retaining security guards on an ongoing basis, says Colin Howgill, chief executive officer of VideoWatch, which he founded in August. He says his system is more effective than passive alarm systems, which convey only limited information. "And it really cuts down on the false-alarm problem. Many police departments have become so intolerant of false alarms that they've started to levy fines for them."

The miniaturization of CCTV technology also is yielding nifty new—and relatively inexpensive—options. One is available at The Security Store at the Mall of America, in the Minneapolis suburb of Bloomington. For about $200, the store sells a camera with an integral microphone that is small enough to fit in the palm of a hand and is no thicker than a deck of playing cards.

Owners can hide the camera in a smoke detector or some other unlikely spot and monitor employees or premises via hookup to a videocassette recorder, says Paul Barnes, the store's co-owner.




**The VideoWatch system provides remote surveillance of locations throughout the client's premises, such as office corridors, entrances, and parking lots.**

## Other Types Of Deterrence

Among deterrent devices offered in the Safety Source catalog and elsewhere is the StandGuard Burglary Prevention Kit. It is designed to bluff would-be trespassers into believing that an alarm system has been installed at a home or a business when in fact there is none. The package, priced at about $25, includes window and door decals and a lawn sign bearing the name of one of several ersatz "security companies."

Similarly, the Electronic Barking Dog tries to convince would-be intruders that there's bite where there's a bark. The $25 device hangs on a doorknob, and when the door moves, a simulated German shepherd growls and threatens. And for $150, the Volumetric Alarm detects small changes in air pressure, speed, and mass to activate a siren when a door or window is forced open.

To guard against bodily attack, a person

can use a stun gun. One is the $80 Thunder Blaster, which, although powered by only a 9-volt battery, administers 150,000 nonlethal volts to temporarily disable an attacker. The $100 Thunder Storm II stun baton generates 200,000 volts.

For individuals who want a less-definitive defense against assault, several manufacturers offer "personal alarms"—pager-size devices that screech when activated by hand. The devices are sold through major retail chains.

Most people "still do not know what a personal alarm is," says David Collins, president and co-owner of one alarm maker, DAC Technologies Inc., in Little Rock, Ark. "But once they see it and can understand how it works, they're usually sold on it."

**Once people see a personal alarm "and can understand how it works, they're usually sold on it."**

**—David Collins, President and Co-owner, DAC Technologies**

The best value in DAC's product line may be a $10 device that doubles as a personal alarm and a room-entry notifier. It includes a flashlight and a 130-decibel siren that can be activated by the carrier—or by prongs, which separate and trip the siren when a window or a door is opened against them.

A new device that's well-suited for small businesses is the Defender 4000 Burglar Deterrent System. It is being rolled out nationally by Citizens Against Crime, which sells a line of security products at its crime-fighting seminars.

Defender 4000 promises to thwart burglars during the gap of several minutes or so between the alarm's sounding and the police's arrival. An electronic eye on a wall unit picks up body heat and movement in a room, discharges a nasty combination of 4 pounds of tear gas and pepper spray, and, within seconds, can fog a room of up to 2,000 square feet. The cost: $1,300; a smaller unit for a 600-square-foot area is $1,000.

### Personal Zones Of Protection

Largely because of the adaptability of the technologies involved, the worlds of business security and personal safety are converging, security-industry analysts say. "Ultimately, what we'll probably see is some version of systems or devices that will allow people to carry a zone of personal protection around with them," says Janjigian of STAT Resources.

The PS-911 System, now being tested at the University of North Texas, in Denton, may present a glimpse into that future. It features a device the size of a key chain that, when activated, communicates data to a central command station, which then can instantly determine the threatened individual's location on a computerized map, indicate the closest patrol officers available, and display the person's photo ID and any pertinent emergency personal data such as medical conditions.

"You're no longer relying on the happenstance of security guards being available at the exact moment you need them," says Ron Jaffe, president of the Dallas-based developer, Personal Security & Safety Systems Inc. "You're able to summon assistance as soon as you think you might be in danger." NB


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MARKETING

# X Marks The Spot For Low-Key Sales

*Some retailers craft subtle approaches to connect with Generation X consumers without putting off well-heeled older shoppers.*

*By Laura M. Litvan*

When it comes to appealing to Generation X—young adults ages 17 to 30—few small-business owners have it as easy as the seven founders of the Speakeasy Cafe.

Their Seattle "cybercafe" offers espresso and access to the Internet—two things Generation Xers seem to crave in unlimited quantities.

But perhaps more important, all seven are Generation Xers themselves, so they instinctively understand the retail approaches that generally work with young consumers.

For example, Mike Apgar, the cafe's 27-year-old president, says one prevalent attitude among his peers is strong skepticism of pushy salespeople. So even though the Speakeasy relies for revenue partly on selling customers computer-related services—such as help in establishing home pages on the Internet's World Wide Web—the staff is hands-off with customers. Salespeople with computer expertise are positioned behind an information desk, and they approach only those customers who "look lost," Apgar says.

"We're not interested in any kind of hard sell," he says, and consequently, "if customers have any questions, we're careful just to answer those questions and not come across like we're trying to sell them something."

That may sound pretty passive, but Apgar says the soft-sell approach works with his mostly twentysomething customer base and complements managers' efforts to create a comfortable, inviting atmosphere for all patrons.

Even without the benefit of peer-group insights, many retailers across the country are adopting similarly subtle approaches to attract Generation Xers. In today's cutthroat retail environment, store owners are grappling for ways to connect with these consumers without putting off well-heeled older shoppers.

"The issue of appealing to Generation X is affecting retailing across the board," says Carol Kaufman, associate professor of marketing in the business school at Rutgers, the State University of New Jersey, in New Brunswick. "I can't think of a retailing segment that shouldn't take Generation X into consideration," she says.

But many retailers don't know whom they're dealing with. Broadly branded as pessimistic "slackers" with bleak financial futures in an economy marked by corporate downsizing, Generation Xers are perhaps the most misunderstood consumers in the marketplace today, a number of marketing experts say.

Many retailers make the mistake of treating Generation X shoppers as if they don't have money to spend, says Karen Ritchie, who oversees the buying of all of General Motors' broadcast and print advertising and is the author of *Marketing to Generation X* (Lexington Books, $25). Ritchie says Generation Xers are generally well-educated, and many have a substantial stash of cash, if only because many live with their parents into their late 20s and delay starting their own families until they're older.

Ritchie also thinks the talk about poor long-term financial prospects for Generation Xers is mostly myth. "The fact is, no one knows whether this generation will or won't be poor yet," she says.

To be sure, many Generation Xers are just getting their first jobs. Consequently, last year the median individual income of U.S. adults ages 18 to 29 was only $14,343—$7,375 less than the median for



PHOTO: ©DOUG WILSON—BLACK STAR

**Seattle's Speakeasy Cafe** *offers espresso and access to the Internet—but never "any kind of hard sell," says Mike Apgar, left, president. He and his wife, Gretchen, his brother Tyler, and four other founders, all Generation Xers, keep their "cybercafe" comfortable and inviting to attract young patrons.*

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Americans of all ages—according to Simmons Market Research, based in New York City.

But even though their income levels are lower than those of the general population, these younger consumers seem driven to shop, making them strong candidates for targeting by retailers, says Sean Keller, associate director at Yankelovich Partners Inc., a Norwalk, Conn., firm that tracks consumer trends.

Research by Yankelovich indicates that consumers ages 17 to 30 are more likely than other shoppers to spend time in retail stores, with many using mall-browsing as a stress-buster. (For more details, see the roundup of research findings in the chart at right.) "For retailers, half the battle is won," Keller says, referring to Generation Xers. "They love to shop."

Small retailers trying to win the other half of the battle—luring these shoppers in a way that won't conflict with their efforts to appeal to other customers—should consider these suggestions regarding their overall store strategies, the experts say:

### Present Lots Of Options

Compared with baby boomers, younger adults are less loyal to designer labels or other brand names, Keller says. Instead, they thrive in environments where they have choices, and they seem to equate choice with power.

Some retailers who serve a broad age range of patrons lay out their stores so that customers are presented with many options and lots of product information—an approach that they have found appeals particularly to Generation Xers.

At Ikea U.S. Inc., a 13-store chain specializing in inexpensive furniture that customers assemble themselves, stores are designed to showcase an array of very similar items that differ slightly in price and quality. Tags on each item provide some detail about the product for use in making comparisons.

Younger shoppers respond enthusiastically to this retailing environment because they like to make the ultimate decision about what value means to them, says Pamela Diaconis, a spokeswoman for Ikea U.S. Inc., a subsidiary of Ingka Holding B.U., a retail concern based in Sweden. "The important thing, though, is that you have to offer a quality product at each price level," she says.

Another retailer that focuses on choice is Borders Books and Music. Owned by Borders Group Inc., in Ann Arbor, Mich., the chain's 117 stores offer books and periodicals as well as music on compact discs and audiotapes.

At most Borders stores, shoppers can use earphones to sample offerings from a menu of up to 500 CDs and can use video kiosks to find all the titles of a favorite recording artist, for example, or to read music reviews of popular sellers.

Meanwhile, with nary a glare from a retail clerk, shoppers at Borders stores can page through the magazines in display racks and even sit down and start reading a book they might decide to purchase. "What we're trying to do is create a browsing atmosphere," says Borders spokeswoman Molly Zink.

## Attitudes Of Generation X Shoppers

| Statement | Percentage Of Generation X* Consumers Who Agree | Percentage Of All Other Consumers Who Agree |
|---|---|---|
| If the opportunity arises, most businesses will take advantage of the public if they feel they are not likely to be found out. | 62% | 55% |
| I like to try new products before other people try them. | 44 | 29 |
| I feel the need to keep up with new styles. | 56 | 35 |
| There ought to be more brands and types of products so that people can pick the one that best fits their own individual needs. | 61 | 57 |
| I enjoy shopping for new clothes; it's fun and exciting to see what's new in the stores. | 50 | 35 |
| On a Saturday or Sunday, I am most likely to spend my time shopping. | 34 | 24 |
| When I want to forget about my concerns, I am likely to go to the mall. | 44 | 28 |
| If I can't find a specific item in a store, I'll go to another store rather than settle for something that is not exactly what I want. | 69 | 68 |
| When I gather information about new products, I pay careful attention to advertising for the product. | 32 | 27 |
| When deciding where to shop, an important characteristic for me is that the store has frequent sales. | 51 | 38 |
| At least once a month, I shop by computer. | 4 | 1 |

*Those born between 1966 and 1979

SOURCE: YANKELOVICH PARTNERS

### Don't Rush Customers To Buy

Generation Xers, more than other adult generations, are astute about slick sales tactics and can be turned off by salesclerks who try to push them, says Wendy Liebmann, president of WSL Strategic Retail, a New York City-based retail consulting firm. "This is not a consumer who believes in all the hype. You can't use a hard sell or be pushy."

To appeal to Generation X, retailers need to train their salesclerks to act as information resources for shoppers, says Keller. These shoppers demand honest information and expect sales personnel to be able to answer customers' questions.

The challenge for salesclerks, Keller acknowledges, is to be on hand to provide answers, without hovering. "A retail clerk has to act like the perfect waiter—magically appearing when needed, but disappearing otherwise," he says.

Some companies have been investing more in training to reduce the chances that their clerks will be stumped by questions from customers.

For instance, at Comp USA Inc., a national chain of 95 computer-products stores, managers have phased in satellite training seminars to acquaint salespeople with the latest developments in software products. Software manufacturers can communicate with clerks at all stores to help them learn how to answer customers' questions expertly, says Larry Mondry, executive vice president of merchandising at the Dallas-based company.

To generate repeat business, Comp USA is encouraging its salespeople to focus on serving as product experts for customers rather than concentrate on closing sales quickly just to earn commissions.

In line with that goal, the

company has eliminated commissions and put salespeople on salary. "We want salespeople who are friendly, information-providing, and unobtrusive," Mondry says.

### Avoid Promises You Can't Keep

Generation Xers are "turned off by anything that seems cliche or insincere," says Judith Langer, president of Langer Associates, a New York City market-research firm. As a result, she says, retailers should probably hold off on claims of social responsibility, such as a focus on environmental concerns, unless those claims are backed up by action.

Apgar of the Speakeasy Cafe makes the same point. When the cafe opened last year, he and other managers wanted to emphasize to customers that the Speakeasy was in business not just to make a profit but also to serve as an information resource for the Seattle community.

To keep that promise, he says, they created their own home page on the Internet that includes a listing of local cultural events. In addition, they worked with local groups that aid the homeless to help the organizations establish their own home pages.

### Use Technology To Expand

Younger consumers who grew up using computers in their homes and schools are more likely to use on-line services and the Internet to make retail purchases. Research by the Yankelovich firm, for instance, shows that Generation X shoppers are four times more likely than other consumers to shop by computer.

In one instance, a South Carolina retailer, Barbara Rackes, sold her three women's clothing stores a few years ago and then established an on-line retail presence with a new catalog on the Internet in January. Her new company, RackesDirect, based in Columbia, is marketing custom-tailored career clothing for women through a home page on the Internet.

While the average RackesDirect shopper so far is about 35 years old, the company has already realized that one of its biggest growth areas will likely come from Generation Xers, says Rackes, owner of the company. She says she is planning some changes designed to appeal particularly to younger shoppers, who often hunt for bargains. For example, she intends to introduce some low-cost accessories into her mostly upscale lineup.

In addition, she hopes eventually to incorporate moving graphics, including a "virtual fashion show" scene, in which simulated models will walk down a runway in her products.

"I think younger Internet shoppers are looking for flash," Rackes says.

**As Generation X consumers grow older and settle down, retailers should anticipate demand for goods that are popular among young couples, such as children's clothing and home furnishings. What's most important is to remember that Generation Xers, like all shoppers, want to be taken seriously and offered value.**

**—Karen Ritchie, Author, *Marketing To Generation X***

For the longer term, many experts who are tracking Generation X's preferences advise retailers to think through some of the changing needs these youthful shoppers will develop as they grow older.

While it's difficult to predict things like fashion trends, a little common sense can provide most retailers guidance on some future trends for hotter-selling products.

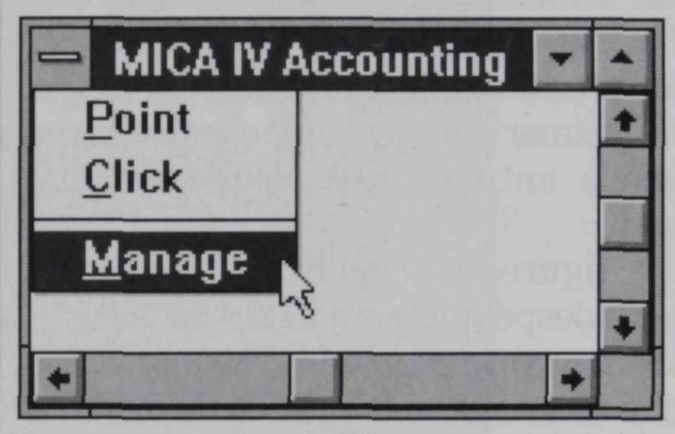
Just as the baby boomers traded in their sports cars for minivans as they matured and started families, so will Generation Xers boost sales in certain categories as their lives change.

For her part, author Ritchie suggests that retailers anticipate demand within a few years for goods that are popular among young married couples, as more young adults settle down. Children's clothing and home furnishings are just two of the categories of products that could see growth, she says.

But ultimately, according to Ritchie, the most important point for any retailer to remember is to give Generation Xers what every shopper wants: to be taken seriously and offered value. She adds: "The important thing is not to underestimate the clout of this market." NB

*To order a reprint of this story, see Page 82. For a fax copy, see Page 5.*

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MANAGING

# Linking Payday To Cash In Hand

*Some small companies find that compensating salespeople only after customers pay up helps cash flow and revenue.*

*By Harvey R. Meyer*

When Robert Kramer worked as a real-estate agent, he learned he couldn't begin to savor a fat commission check until a deal was done. When he launched Brookdale Plastics, a Plymouth, Minn., custom-plastics manufacturer, it made perfect sense to Kramer not to compensate his salespeople until he had customers' cash in hand.

"I figured if I could do it in real estate, my salespeople could do this, too," says Kramer, owner of the 31-employee, $4.5 million firm. "We've got all this [financial] exposure in the firm in labor and materials, and we really don't derive any benefit until we're paid. So there's no reason to pay our salespeople until the customer pays up."

When—and how—to compensate salespeople is an age-old concern for businesses large and small. Many companies pay their sales staffs as sales are "booked" (registered into the company's order-entry system) or invoiced, or upon shipment of goods or delivery of services.

Others tie salespeople's income to collected sales—a compensation method that offers several notable, and often unexamined, advantages. Depending on how the compensation system is structured, paying salespeople upon collection of the payment due may offer some growing companies a way to improve cash flow.

The practice also can boost sales while encouraging salespeople to pay closer attention to customers' needs. Further, such a system discourages sales forces from obtaining hollow commitments from customers just to meet a sales or income target. (Stories abound about how salespeople working within a payment-upon-booking system inflated their sales productivity—and income—by attributing orders to dead people.)

"If you pay upon booking, sometimes the salesperson will put tremendous pressure on a customer to buy something he isn't ready to buy," says Larry Ramaekers, a principal with Jay Alix & Associates, a Southfield, Mich., consulting firm specializing in turnaround management, or helping to resurrect companies in trouble. Ramaekers also is a director of the Turnaround Management Association, based in Chicago.

"Maybe the customer didn't want to buy in March, but in April or May, so you may end up with an incomplete or canceled order," says Ramaekers. "Salespersons are sometimes more concerned about a customer signing an order than [about] whether the sale actually occurs."

While few reliable estimates are available on when companies pay their salespeople, a 1993 survey by the American Electronic Association of 183 firms—most of them association members—showed that payment upon collection was the least-prevalent compensation system practiced, with 14 percent using it. The system used most was paying salespeople upon invoicing (36 percent). That was followed by payment upon booking (28 percent) and payment upon delivery (22 percent).

"The best possible arrangement for the company is for the salesperson's economic incentive to be tied directly to the company's," says Ramaekers. "The company shouldn't really care about orders or shipments, but about getting paid."

Theoretically, payment upon collection encourages salespeople to do a better job of examining a customer's credit worthiness because their income is contingent on the client paying up. And frequently, salespeople, not credit managers, are in a better position to determine credit quality because they're closer to customers.



PHOTO: ©JIM CALLAWAY

**Changing to** *a payment-upon-collection system for salespeople has improved cash flow and sales at Atlas Butler Heating and Cooling, says Mark Swepston, president.*

Mark Swepston, president of Atlas Butler Heating and Cooling, in Columbus, Ohio, instituted payment upon collection four years ago when he revamped the company's sales-compensation system. Swepston was exploring ways to increase sales.

The six full-time salespeople are now on 100 percent commission, receiving 50 percent of a job's net income after a customer's payment is received. The salespeople are responsible for picking up checks from the company's primarily residential customers.

Swepston believes the new system has

*Harvey R. Meyer is a free-lance writer in St. Louis Park, Minn.*

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played a vital role in doubling his 75-employee firm's sales since 1991 to $8 million today. He says customer payments are received within 10 to 12 days of a residential job's completion, or about four times faster than when Atlas Butler paid salespeople upon booking. Additionally, the percentage of bad debts relative to sales has shrunk sharply, to 0.3 percent from 2.7 percent.

"It has changed our cash flow phenomenally," says Swepston.

Before instituting the payment-upon-collection system, Swepston tested it first with a salesperson who believed in the practice. It worked very well. The system not only improves Atlas Butler's bottom line but also enhances the sales staff's customer-service and other skills, Swepston says.

"It's made them pay more attention to customers' needs, because if the customer isn't satisfied, the salesperson won't get paid," he says. "They cared before, but this practice brings them one step closer to customers because their pocketbook is affected."

Adds Brookdale Plastics' Kramer: "It reaffirms in the minds of everybody here that it all boils down to the customer. We live and breathe for the customer to be No. 1. If the salespersons know they won't get paid if the customer isn't happy, they work hard to make sure the customer stays happy."



PHOTO: ©STEVE WOIT

**Payment upon collection** *contributes to customer satisfaction, says Brookdale Plastics owner Robert Kramer, talking with marketing manager Lynn Weiss Udelhofen and salespeople.*

Instituting a payment-upon-collection system has diminished administrative and sales-force headaches for smaller companies such as Midwest Rubber Service & Supply Co., which serves Minnesota's Twin Cities area. The $10 million firm makes conveyor belts and rubber products.

Even at many companies that practice payment upon booking, invoicing, or shipping, salespeople must return all or some of their commission if the customer defaults on payment, says Ron Roberts, Midwest's controller. But tracking that can be administratively messy and can create bad blood with the sales staff.

With payment upon collection, there are no such administrative and salespersonnel worries, Roberts says.

He notes also that Midwest has gained another benefit from payment upon collection. Its salespeople, who become adept in assessing the credit worthiness of customers, are more entrepreneurial-minded, team-oriented, and empathetic to management's concerns.

"In that sense," adds Tom Ingram, chairman of the marketing-education department at Colorado State University, "salespersons become more like managers, and that's favorable because they represent the talent pool that will be looked at for future sales managers."

Many salespeople assume that payment upon collection means they will double as bill collectors, since they have more at stake if customers are delinquent. And indeed that is the case at Atlas Butler, where salespeople are thoroughly trained in collection responsibilities.

Since Atlas Butler revamped its sales-compensation system, its salespeople have been spending more time discussing their role and the sales process with customers, helping them understand the installation/service workers' jobs and billing processing. A salesperson stopping by for payment uses that visit as a final customer-service opportunity, inquiring whether the customer is satisfied with the job.

But most companies practicing payment upon collection don't require their salespeople to do collection work, says James F. Carey, a Burlingame, Calif., compensation specialist and author of *Complete Guide to Sales Force Compensation*.

Carey maintains it's an inefficient use of time to have a $60,000-a-year salesperson, for example, perform the duties of a $30,000 collections person. Salespeople should concentrate on selling, he says, because that's what they're trained to do and how they get satisfaction from their work.

Says Kramer: "I don't want our salespersons to think of themselves as bill collectors, and I don't want customers thinking of our salespersons as bill collectors. The job of salespeople is to get the sales and create a positive relationship with the customer. Their relationship with customers is fragile enough without the salesperson going in one day and asking for business and the next day essentially scolding customers and asking why they haven't paid."

Beyond the negative baggage that bill-collecting salespeople might bring, many aren't trained to handle collection duties, says Colorado State University's Ingram. He favors a more-depersonalized collection approach using the accounts-receivable department.

Many salespeople might view collection work as demeaning and would resist that role, Ingram says. Further complicating matters, he notes, is the fact that salespeople typically have established relationships with customers' purchasing managers, not their accounts-payable officers.

Although many owners and managers of small and medium-sized businesses are convinced that payment upon collection helps improve cash flow and sales, they're also often quick to add that it isn't a panacea. It should be used in tandem with, or to complement, other measures to improve efficiency, quality, and customer service, they say.

"The sales-compensation method is an integral part of the complete package at Brookdale, together with having quality products, service, and people," says Kramer. "It's kind of like having your eyes detached from your body. Outside your body they don't do much good. But when you attach them to your body, they operate well. It's the same with [payment upon collection]. It's an important element that contributes to the whole package." NB

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MANAGING

# The Suite Life For Office Renters

*An executive-suite firm can offer a convenient, cost-efficient alternative to conventional office space.*

*By Lynn Woods*

Almost a year ago, Martin Cohen, a New York City business consultant, traded in the traditional office space he was leasing in a commercial building on Madison Avenue for a furnished office on Park Avenue.

The new office came with a receptionist, a phone-answering and -forwarding service, conference rooms, and an on-site business center that provided the equipment and staff for desktop publishing, word processing, faxing, photocopying, videoconferencing, and other services.

Cohen says he's paying slightly more than he did before, but he's getting more for his money. "Before, my overhead wouldn't allow this," he says, referring to the telecommunications and videoconferencing services he now has.

Using the on-premises support staff means he does not have to hire full-time help, pay insurance benefits, or worry about whether the receptionist will show up late for work, because a replacement will be provided.

If his personal computer breaks down, Cohen can use the word-processing services at the business center.

And he routinely holds meetings with important clients in one of the building's three conference rooms—at no extra cost beyond his monthly space-rental rate.

The result? A 40 percent increase in business since his move. "Because of the professional setup, my business is geared to larger clients," explains Cohen. "And the amount of support services means I can respond more quickly" to new opportunities.

The concept of virtual offices—or executive suites, as they are more commonly known—was introduced in 1967, when San Francisco-based HQ Business Centers, the world's largest provider of executive suites, opened its first location.

In the past decade, the executive-suites industry has expanded tremendously, says Jane Booras, executive director of the Executive Suite Association, a trade organization in Plano, Texas. She says the occupancy rate for the 500 members of her organization is approximately 80 percent—up about 10 to 15 percentage points in five years. There are between 3,500 and 4,000 executive-suite companies in the U.S., Booras says.

Typically, a dozen companies now compete in booming markets in cities with strong commercial areas downtown—including Washington, New York, Chicago, and Atlanta.

Some of the companies are national chains such as HQ (which also has locations in 14 foreign countries); InterOffice Management Inc., based in Fairfax, Va.;




PHOTO: ©TOM SOBOLIK—BLACK STAR

**An executive suite** *has helped the business consultancy of Martin Cohen, with, from left, InterOffice New York's Mykel Kowlessar, an administrative assistant, and Heidi Hendrickson and Carla Pardo, office-center managers.*

*Lynn Woods is a free-lance writer in Woodstock, N.Y.*

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Suburban locations are also popular. Booras says that 90 percent of business owners who lease office space from her organization's members live within five miles of the executive-suite building.

The boom in executive suites, Booras says, is largely a result of corporate downsizing, which has led many big companies to close expensive offices in some cities and instead hire regional representatives. But she says a steady 30 percent of the executive-suite market consists of entrepreneurs—mainly professionals, such as accountants, attorneys, financial and public-relations consultants, and people in real estate.

Executive suites can offer entrepreneurs numerous benefits. Rather than having to commit to a long-term commercial lease, hire employees, and buy or lease a full array of office equipment, small-business people can simply pay a single monthly fee for a furnished office in an attractive location, complete with business services and facilities as well as a receptionist who not only greets clients but also answers the phone in the company's name.

In some instances, the basic fee also includes travel-arrangement services, use of a fitness room and kitchen, and access to an on-site law library.

Executive-suite companies can provide as much or as little as a business needs. It might be simply bare-bones mail service—without office space—for about $50 a month. Or it could be a "business identity" package consisting of just mail and telephone-answering service. Another option is an unfurnished or furnished office available by the month, day, or even hour.

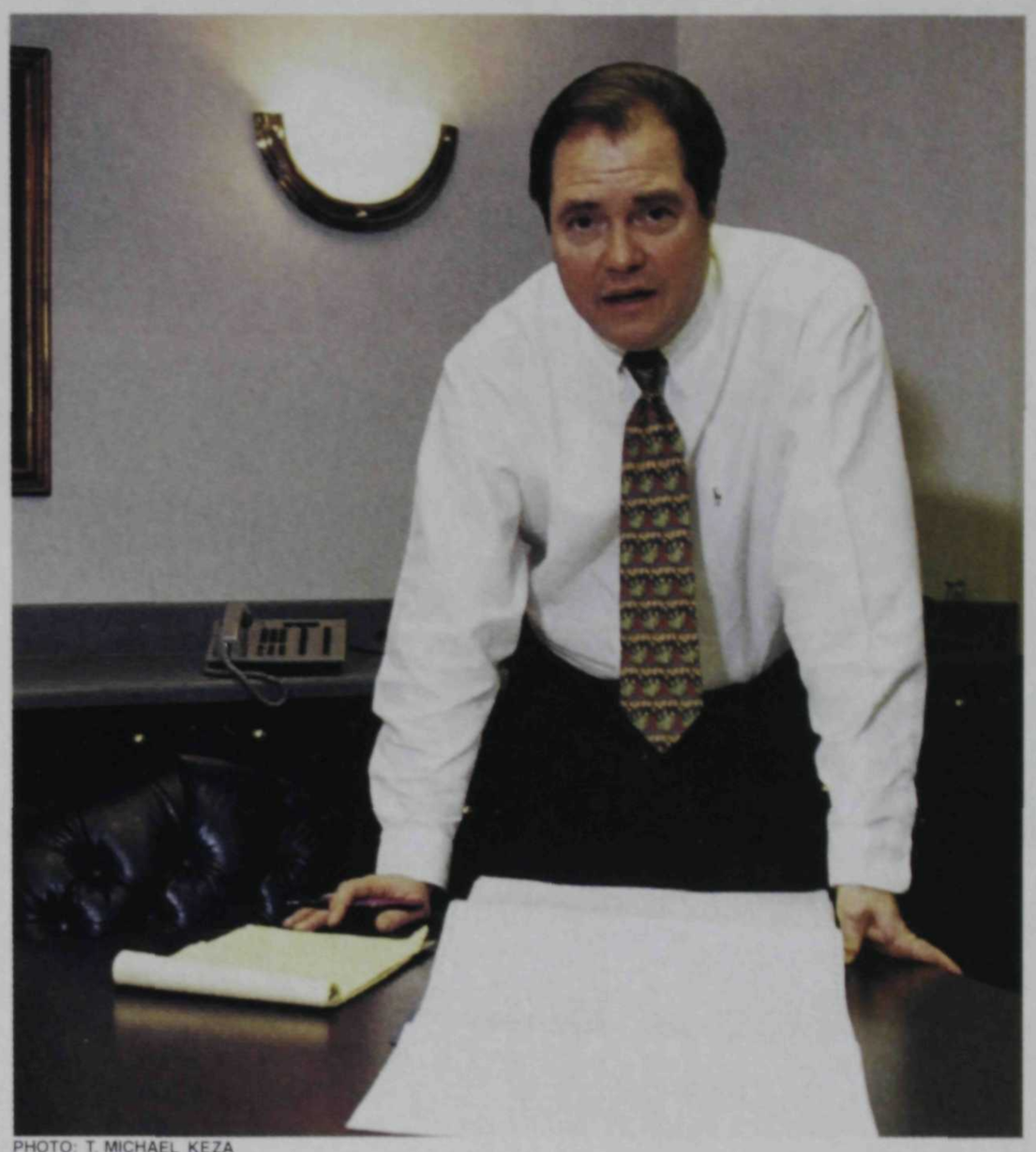


PHOTO: T. MICHAEL KEZA

**The support services** *that are provided with executive suites make the extra cost worthwhile for Paul Robinson and his Washington, D.C., consulting firm.*

On the downside, small-business renters say executive-suite companies sometimes nickel-and-dime their tenants for extra services. Increasingly, tenants are providing their own personal computers and fax machines or hoofing it to a copy shop to avoid added costs—typically $2 for an outgoing fax, $20 an hour for word processing, $24 an hour for filing or other secretarial services, and 10 to 15 cents per photocopy.

Other extras might include a 20 percent handling fee for overnight mail service, $15 a month for voice mail, $20 a month for kitchen service, even a surcharge on outgoing phone calls.

On the other hand, some small-business tenants say they actually pay less for long-distance phone service, office supplies, and overnight mail service than they would on their own because of the discounts passed on by the executive-suite company, which can use its volume of business to negotiate lower prices with vendors.

Booras says the cost of an office plus a basic package of amenities, including receptionist service, phone-answering service, and use of a conference room, ranges from $500 for 150 square feet in a medium-sized city or a suburban area to $3,000 or more a month for 170 to 240 square feet in downtown New York, Washington, or Chicago.

One downtown executive-suite client is Paul Robinson, who owns two businesses. They are Emerald City Radio Partners, which has three radio stations in South Carolina, and BTMI Inc., a telecommunications investment consulting firm. Robinson leases four executive suites in Washington from Metro Offices, a local executive-suite firm. He says that depending on the volume of services he uses from month to month, he pays $40 to $60 per square foot, or about two to three times what he would pay for typical downtown-Washington commercial space without executive-suite services.

He has decided that the extra cost is worthwhile, however, because he gets professional, quality support services and equipment, his square-footage requirements are lower than they would be if he were renting space alone, and, perhaps most important, the arrangement provides a boost for his company's image.

"This morning I had a meeting with an investor to raise equity for my company," he says. "When he arrived at 9 a.m., there was a beautiful setup with coffee and bagels. He wouldn't have known that the

## Before You Sign Up

For a list of executive-suite firms in your area, contact the Executive Suite Association, based in Plano, Texas, at 1-800-237-4741. The association can also recommend companies that rent offices by the day or the hour in locations across the United States and Canada and in a few European countries.

Before signing a lease for an executive suite, keep in mind these tips offered by experts in commercial leasing:

■ Determine your specific needs. Project out your costs for an average day to the cost per week, month, and year to find out what services you require and how much you can afford to pay for them.

■ Shop around. While rates are usually competitive in a particular location, the quality of service and of the facility may vary considerably from building to building. When visiting a building, observe carefully whether the premises are well-maintained. Talk to tenants. Arrange to meet with the office staff, and don't be afraid to ask questions such as "What do you do if you're overloaded with work?"

■ Find out which services are extra and which are included in the monthly fee. For instance, some companies charge extra for use of voice mail, parking, and kitchen facilities, while others don't.

■ Negotiate. You might be able to get a discount off the monthly fee by signing a long-term lease—of six months, a year, or even several years—by renting more than one office, or by leasing from an executive-suite company that's just starting out or opening a new location. When dealing with a company new to your area, however, make sure the company has a long-term lease for the building.

entire space wasn't devoted to my company alone!"

Patrick Dean, who runs a bereavement center in a Milwaukee suburb, says the 24-hour access to his HQ-leased office enables him to serve a client in a professional setting at any time of the day or night. Businesses that rent from a chain have the added advantage of being able to use the conference rooms and offices at the chain's other locations without extra charge.

Maria O'Sullivan, co-partner of a real-estate-title company that rents two offices in Tysons Corner, Va., from InterOffice, says she frequently uses the conference room at InterOffice's Fairfax location when dealing with clients who live in that area.

**The principal benefit of an executive suite "is convenience. There's a certain value to not worrying about things."**

**—Consultant John Hardisty**

Yet another advantage is the opportunity to network with other companies in the building. "When you're on your own, you get in your own little world and lose sight of what's going on," says Mark Lenart, owner of a Cleveland construction company who rents an executive suite from HQ. "Here you can share war stories."

Once a company grows to three employees or more, the cost of an executive suite tends to outweigh the benefits, say experienced small-business tenants. For many self-employed people, however, an executive suite is a long-term answer to their business needs. The average length of stay among HQ's clients is 2½ years, according to Lisa Surman, director of marketing. But many small-company owners stay much longer.

For example, John Hardisty, who runs an international consulting firm in Washington, has been an executive-suite renter for 12 years, presently with Metro Offices. He has considered relocating to his home, where he has a fully equipped office in the basement.

But all things considered, his downtown location, along with the flexibility of being able to leave the office early and know his phones are covered, are perks that would be hard to give up.

"The whole thing is convenience," he says. "There's a certain value to not worrying about things." NB




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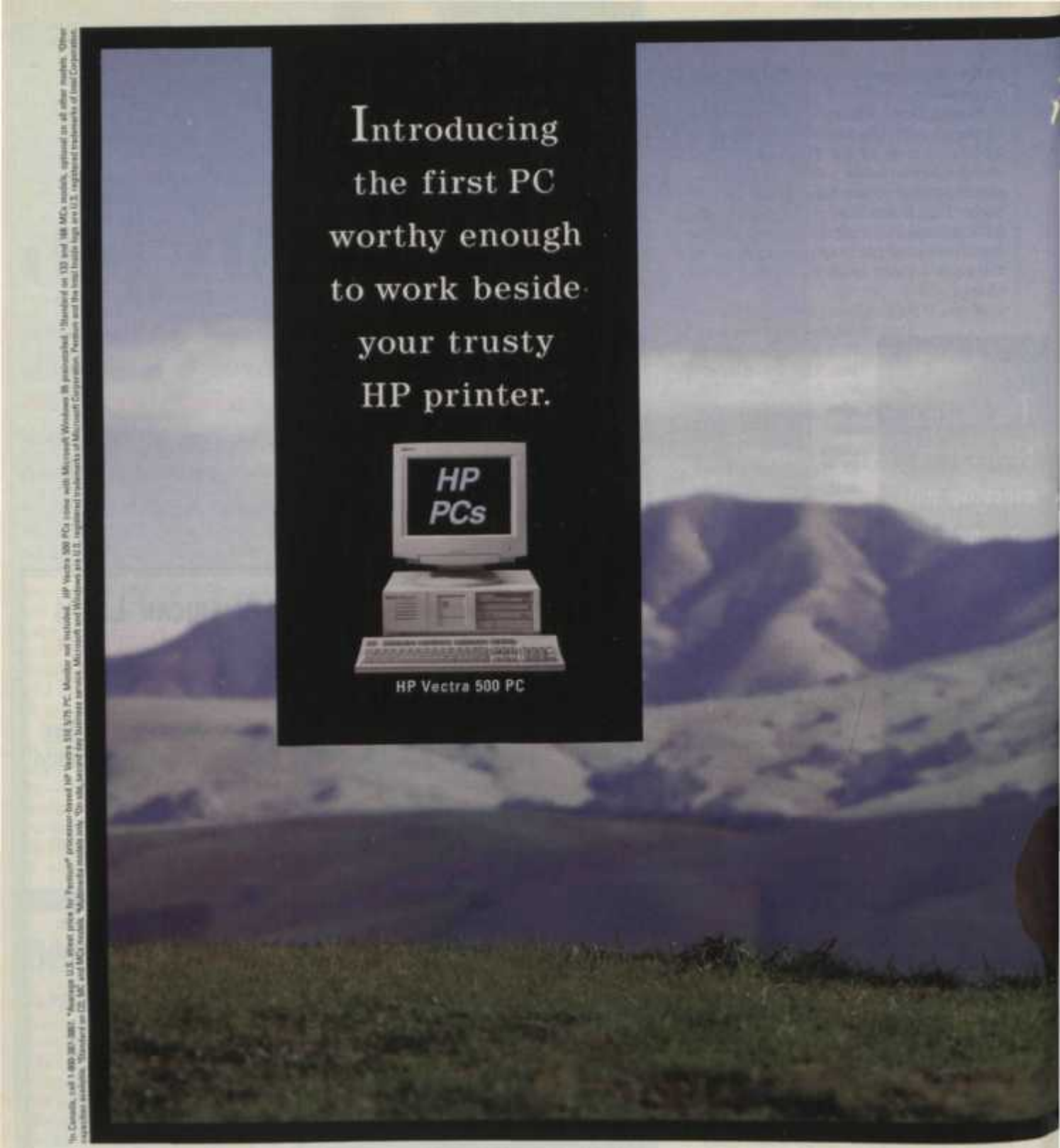
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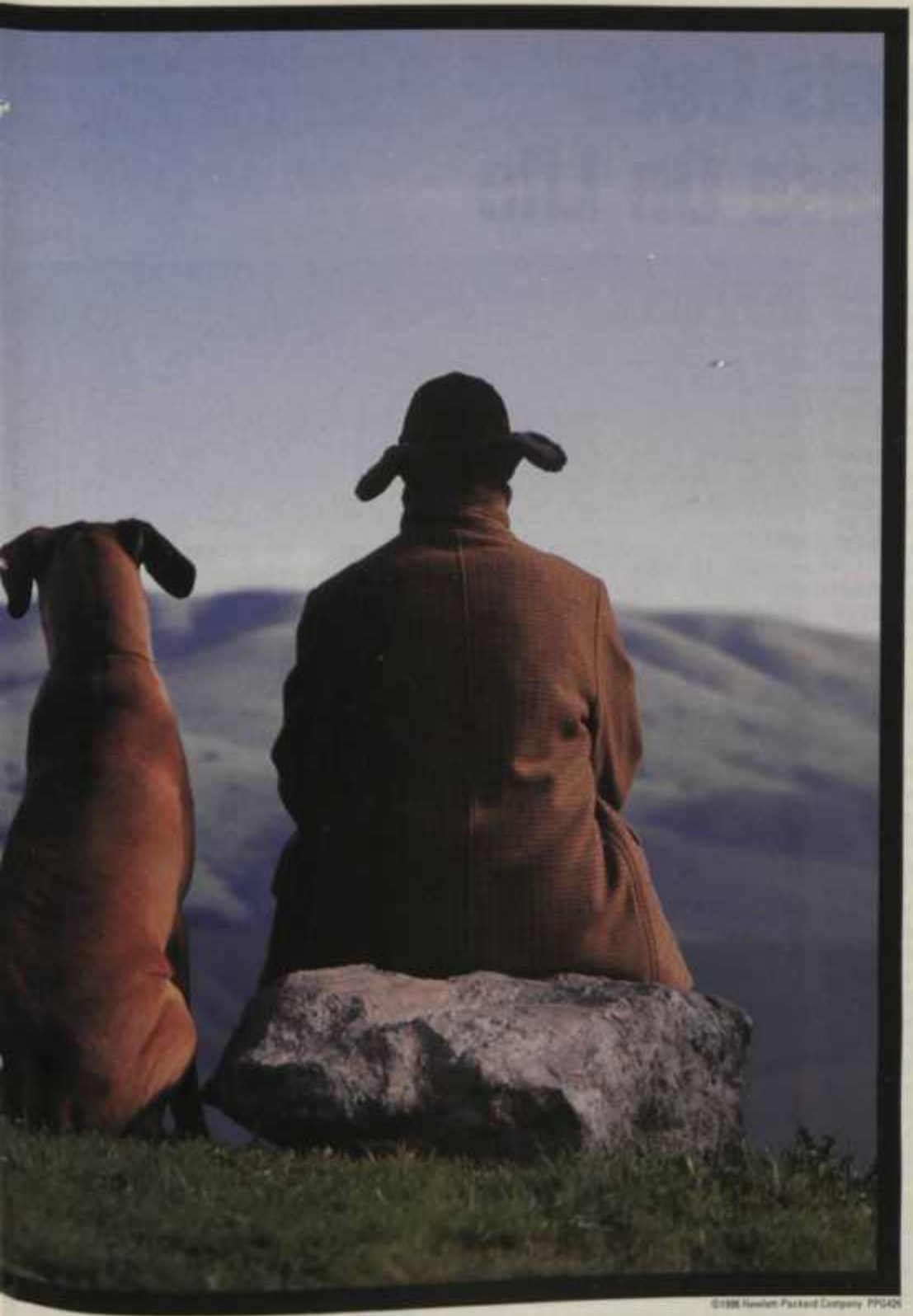
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TRANSPORTATION

# Small Fleets Get A New Lease On Life

*By Julie Candler*

**Using** *a full-service lessor for trucks and vans is one reason Gary Sandstrom, vice president of B&B Washington's Caterer, and corporate chef Yann Henrotte can toast the firm's success.*




PHOTO: T. MICHAEL KEZA

A catering company that delivers food to parties in the U.S. Capitol and to Washington Redskins games and events used to lease its refrigerated trucks and vans. Then it decided to own, and it bought a small fleet, but now the company is leasing again.

B&B Washington's Caterer, in the District of Columbia, switched from ownership back to leasing because, among other reasons, company executives wanted to project the right image: neat and well-scrubbed, like a Julia Child kitchen.

"That's important in the catering business," says Gary Sandstrom, vice president of B&B. "Our trucks are our main sources of recognition. Everybody sees our vehicles on the city streets, or parked at RFK Stadium, where we handle the concessions and service private boxes."

B&B's lessor, Miami-based Ryder System Inc., makes sure that the five trucks and three vans leased to B&B are washed every week. The full-service truck lessor even helped B&B find the company that developed the cityscape logo that gleams in gold on the caterer's red vehicles.

Among the reasons why B&B switched from ownership to leasing, the most important was the service that company executives knew they could expect in a leasing arrangement. Before Sandstrom joined the company, he says, B&B's managers thought they could save money by owning. "But they had to keep up a fleet of trucks themselves. If you don't have the means to do it," he says, "you constantly have to send trucks out to get serviced and repaired. Then a part of the fleet is out of service and you have no backup vehicles."

The company switched back to leasing, Sandstrom says, because it "wanted service included and backup vehicles provided if a truck is out of service or we need more [vehicles] during our peak period. Now, full-service leasing has taken a lot of day-to-day management problems and put them into professional hands.

"The ability to upgrade the fleet without a big investment" is another benefit of leasing, Sandstrom adds.

The trend toward leasing by companies that have small fleets of cars or trucks is growing like home pages on the Internet's World Wide Web. By 2000, the number of companies with leased fleets of two to nine cars will grow by 39 percent over 1994, according to Mike Antich, executive editor of *Automotive Fleet* magazine, in an article in the publication's annual fact book.

Companies with car fleets are turning to leasing to combat the escalating prices of new cars. Of all the vehicles sold in the United States in 1995, 26 percent were sold through leasing arrangements, which are included in sales statistics. For 1996, the figure could reach 30 percent, according to Rodney J. Couts, executive director of the National Vehicle Leasing Association, in Burlingame, Calif.

Meanwhile, leasing as opposed to owning is increasingly being viewed as better for cash flow. Some businesses find leasing advantageous for various other financial reasons. For example, customarily the lessee treats lease payments as business expenses, and the vehicle's value does not appear on the balance sheet. If a vehicle is purchased, however, any amount owed on it becomes a liability on the balance sheet, which can affect a small firm's borrowing limits and lines of credit.

"We went back to leasing because of cash flow and [property] taxes," says Glenn Dinkheller, manager of fleet and facilities for Mosler, Inc., of Hamilton, Ohio. The 1,000 pickups and light vans he manages are used for servicing the business-security products that the company manufactures and sells. "We don't have to [count] the vehicles as assets," says Dinkheller. "The leasing company owns the vehicles, so it takes care of the taxes."

Major leasing companies are recognizing that their services are in demand not only by big corporations but by small businesses as well. "Our strength is in fleets of 25 to 250, and the business [in this category] is increasing," says Jack Rennels, vice president for marketing of Emkay, Inc., a leasing company in Itasca, Ill.

Automotive Rentals, Inc., of Mount Laurel, N.J., has established ARI Plus, a department within the company that specializes in fleets of 25 vehicles or fewer.

Ryder System reports that fleets of one

*Reduced costs and worry-free maintenance are among the advantages that are prompting companies to lease vehicles to meet their various business needs.*




to five trucks are multiplying on its customer list, and Mack Leasing System, in Allentown, Pa., is signing up an increasing number of fleets of one to 10 medium- and heavy-duty trucks. "They are very strong for us, especially small private companies' fleets with [short-haul] trucks or regional operations," says Tom Thayer, director of Mack Leasing System.

Donald Kreft, president of Atlanta-based Lease Plan USA, says his company "had been skipping that marketplace [smaller fleets] and didn't need to be." To maintain its desired level of attention to large fleets, Lease Plan USA is acquiring independent leasing firms to handle localized small fleets for the company.

"The small fleet takes more of a hands-on kind of management, more local service, personal delivery of the cars, working with fleet managers who are in the local community," Kreft says. "With larger accounts, we work with the drivers, who could be 2,000 miles from the home office when they need help."

Lease Plan USA recently acquired Neville Leasing, in Decatur, Ga., to manage small fleets in the Atlanta area. "We become the administrator for smaller fleets averaging 25 to 30 cars," says Neville's president, David Neville.

"The big fleets," he says, "will have their own in-house [administrative] staff of three or more who know cars as well as we do. The smaller company can't afford that staff."

Managers of both small and large fleets are coming up with some innovative ways to reduce the high cost of transportation. Some save with individual retail leases, using the services of local car dealers, banks, finance companies, and small, independent lease companies instead of major leasing or fleet-management companies. Small fleets can take advantage of factory-sponsored retail leases that offer sweet deals in order to move cars off dealers' lots.

Small companies looking for lessors offering individual leases can contact the National Vehicle Leasing Association, P.O. Box 281230, San Francisco, Calif. 94128-1230. The group's members include national, regional, and local leasing companies.

The association's Couts estimates that "at least 50 percent of a typical member's business stems from small commercial fleets of 25 vehicles or less."

The growth in small commercial accounts among NVLA members, says Couts, is with independent lessors rather than with dealers and banks. "Small firms are trying to maximize transportation budgets and need an objective view of how a lease company can meet their needs." The independents, Couts says, can help small companies decide which product is best as far as maintenance, insurance, and other factors. "The lessor can be a business consultant."

Owners of small businesses are finding that it pays to totally turn over fleet management, including maintenance, to the leasing company. Emkay's Rennels rattles off a list of services offered by a number of leasing companies, including his. "We provide everything from maintenance to fuel to accident management, third-party subrogation in accident cases, and cellular phones. We consolidate bills into one report that helps companies manage the budget."

This past December, Mosler, Inc., adopted a maintenance program through Emkay. The reports are making a hit with Mosler fleet manager Dinkheller. "The drivers get coupon books good for work at specified facilities like Jiffy Lube, Valvoline, Goodyear, and Firestone. The driver goes in, gets work done, signs for it, and we get the bill.

"Administratively, it brings all the bits and pieces into one consolidated form. It gives us the ability to have somebody monitoring every expense. Before, the driver was left to his own devices and could pick and choose where he wanted to go for work. I think now our costs for routine

maintenance are under control."

Outsourcing all fleet functions to Emkay smooths the job for Al Gielicz, assistant manager for treasury services at John O. Butler Co., Inc., a Chicago manufacturer of dental-care products. The company leases a van and 69 midsize passenger cars for its sales staff, which uses the vehicles to call on dentists and drugstores nationwide.



PHOTO: ©TOM SOBOLIK—BLACK STAR

**Outsourcing fleet functions** *for the cars used by sales representatives like Karen Martinez has cut back on administrative headaches at John O. Butler Co., Inc., a maker of dental-care products.*

"Leasing combined with maintenance is like dealing with experts as opposed to having to become experts," says Gielicz. "We would have to have more personnel administering the fleet if we owned the cars."

Some companies are trying to lower transportation costs by turning to driver reimbursement, a program that compensates employees who use their own vehicles for business.

In some instances, employees are reimbursed at 31 cents per mile, the rate established by the Internal Revenue Service for 1996 tax purposes. Or employees may be given a set monthly reimbursement to cover monthly payments, maintenance costs, insurance, and other expenses such as taxes. The reimbursement amount is calculated according to the percentage of a car's mileage that is attributed to business use.

Runzheimer, Inc., a Rochester, Minn., management consulting firm that specializes in travel and living costs, serves companies with reimbursement plans by tracking car costs based on the vehicle's operating area, its make and model, depreciation, insurance, and other factors.

Runzheimer's customers range from some of the world's largest corporations to very small businesses. It uses data provided by the companies to develop financial models comparing the costs of leasing vehicles, owning them, and reimbursing employees for using their own cars.

"If your sole purpose was to satisfy the employee," says Larry Snyder, Runzheimer's director of business development, "then more companies would offer a reimbursement plan. The drivers can choose the car they prefer.

"A lot of companies' major objective in moving to auto reimbursement is to save costs. No fleet manager is required. It's not uncommon to save 10 to 15 percent per vehicle per year."

The system drastically reduces liability risks, Snyder points out, because the company is not held responsible if a vehicle is involved in an accident while not on company business. "With a company-owned or leased vehicle, the company is responsible 365 days a year, 24 hours a day, regardless of who is driving," says Snyder.

Some competitors disagree with claims that reimbursing employees for using their own cars offers advantages. "The key," says Emkay's Rennels, "is how much you will reimburse. Realistically, the companies lose control over what employees are driving. A driver might take the reimbursement money and drive a cheap, 10-year-old car. Fleet managers have to figure how they want their company represented."

Amerisure Co., which sells business insurance, is switching from employee reimbursement back to leasing in an attempt "to better retain employees," says Tina Christie, the firm's managing purchasing agent.

Amerisure's 85 drivers used their own vehicles for sales and loss-control service work for the nationwide firm, which is based in Southfield, Mich. But many employees complained that the reimbursement was not covering their car expenses. "Now the company is taking reimbursement away, and some employees are complaining about that," says Christie. "You will get complaints either way."

In the experience of most companies with reimbursement programs, employees are less likely to complain if their monthly car payments are well below the amount they are reimbursed.

"If $750 is the monthly allowance under reimbursement, we advise the driver to purchase or lease a car in the $400-a-month range," says Marilyn Gilden, supervisor of Automotive Rentals' ARI Plus department, which, like Runzheimer, also handles reimbursement plans. "That way, drivers shouldn't have to pay money out-of-pocket. The $750 has to cover the lease or purchase payment, insurance, fuel, maintenance, and repairs—everything."

Of the 3,400 vehicles in ARI Plus, up to 10 percent are leased to drivers who are in company reimbursement programs.

Ryder System advises businesses that they can save money by leasing only the vehicles they will need during their slowest periods and then renting additional vehicles during peak times.

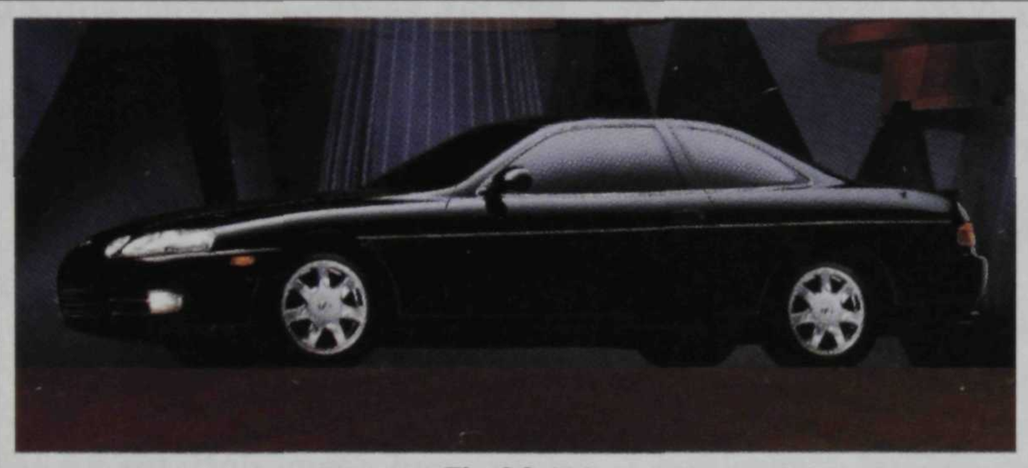
That strategy is working well for Langham Transport Services, an Indianapolis-based freight forwarder specializing in air transport. The company started in 1988, and its volume of business has increased by 30 percent every year.

One of Langham's customers, Quaker

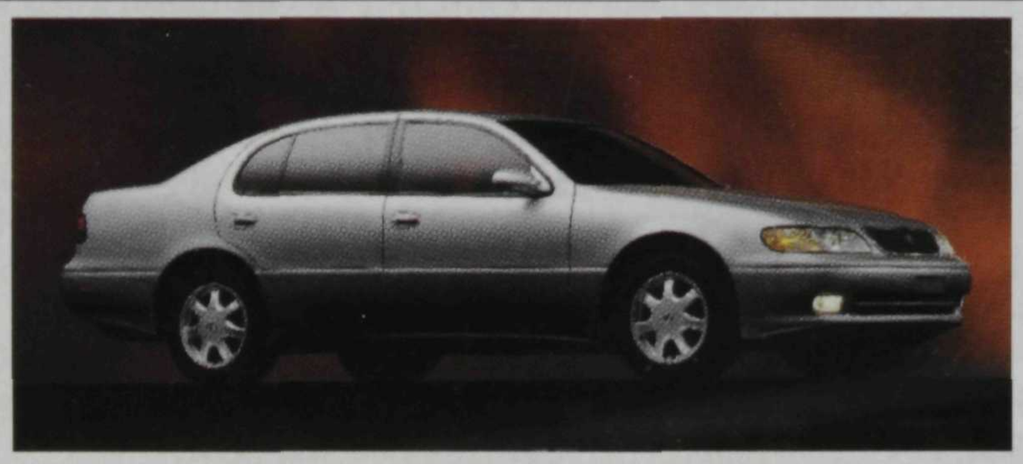


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Oats, uses the firm to ship coolers, watches, T-shirts, and other materials promoting one of Quaker's products, Gatorade, to college-football bowl games, golf tournaments, and professional-basketball playoff games.

At first, Langham used one truck for its Indianapolis-area pickups under short-term leases of a month or a week. By 1994, the daily schedule of pickups warranted a long-term lease. The company turned to Mack Leasing System for a 24-foot, medium-duty truck. Under the full-service lease, Mack even obtains permits when required for Langham to operate the truck in neighboring states.

"We decided it was better to have a truck available at all times to do the daily pickups," says John Langham, vice president of administration. The Mack truck picks up cargo from the company and delivers it to Indianapolis International Airport.

"We ship nationwide and overseas through scheduled airlines," says Langham. "If Quaker Oats calls us for something going from Los Angeles to Florida, we pull all the pieces together [handle all the paperwork and logistics] and come up with the end result they want."

The single leased truck is all that's needed when demand is at its lowest level, Langham says, but "we subcontract with Mack for the short-term trucks we use in other cities."

"We expect to need more trucks on long-term leases eventually," says Langham, who adds that Mack Leasing System provides "the flexibility we need for our expected growth."

**"Leasing combined with maintenance is like dealing with experts as opposed to having to become experts."**

**—Al Gielicz, John O. Butler Co.**

Not all fleets are growing, however, and sticker shock is the main reason. The average suggested retail price of a new car is $19,841, up from $12,025 in 1985, according to Ed Bobit, CEO of Bobit Publishing Co., in Redondo Beach, Calif., and publisher of *Automotive Fleet*.

Brian Lewin, fleet-information specialist for the National Association of Fleet Administrators, in Iselin, N.J., says that because of higher sticker prices, "a lot of fleets are downsizing. Some are tightening employee eligibility requirements for a car, especially for executive cars."

ARI Plus' Gilden says she has seen fleets scaled back or eliminated. "Some of our customers have cut back on their sales force or changed eligibility requirements for a company car," she says. "They may be handling sales in-house or through telemarketing. Some have resorted to having one or two pool cars sitting in the lot for occasional use by a salesperson making a call or checking a complaint."

Higher prices for used cars are helping to offset the high new-car costs, however. "The residual value [the auction value of the car] is the important thing," says Gilden. "The higher your residual value, the lower your monthly payment will be because you will depreciate less on the vehicle."

Residual values are holding up even though commercial fleets are rolling up more miles before retiring cars. Says Emkay's Rennels: "The used-car market is more readily accepting higher-mileage vehicles."

Gilden advises businesses to be as accurate as possible in estimating the number of miles a leased vehicle will be driven yearly. She points out that if a vehicle is driven 30,000 miles more than specified in the lease agreement and the stipulated penalty is 10 cents a mile, the lessee pays an extra $3,000.

"I would rather pay an extra $5 a week" for a lease agreement allowing more miles, she says, "than have to come up with a $3,000 mileage penalty at the end of the lease. Better to give us a higher mileage estimate and have a few miles left at the end of the lease term." NB

# Where To Go For What You Need

### Automobiles And Light Trucks

The following companies lease cars and light trucks throughout the United States and have at least 16,000 vehicles apiece in business fleets:

Mike Albert Leasing, 10340 Evendale Drive, Cincinnati, Ohio 45241; 1-800-886-5828.

AMI Leasing, 46 W. Boylston St., P.O. Box 986, Worcester, Mass. 01613; 1-800-468-9993. (The company also leases medium and heavy trucks.)

Associates Leasing, Inc., 2312 Trinity Mills Drive, P.O. Box 115104, Carrollton, Texas 75011-5104; (214) 417-7000.

AT&T Automotive Services, Inc., One W. Pennsylvania Ave., Towson, Md. 21204; (410) 494-7800.

Automotive Rentals, Inc., 9000 Midlantic Drive, Mount Laurel, N.J. 08054; (609) 778-1500.

Donlen Corp., 2315 Sanders Road, Northbrook, Ill. 60012-6145; (708) 714-1400.

Emkay, Inc., 805 W. Thorndale Ave., Itasca, Ill. 60143-1355; (708) 250-7400.

Enterprise Fleet Services, 600 Corporate Park Drive, St. Louis, Mo. 63105; (314) 512-5000.

Fleetmark, Inc., 2838 Hickory Hill, No. 25, Memphis, Tenn. 38115; (901) 368-7800.

GE Capital Fleet Services, 3 Capital Drive, Eden Prairie, Minn. 55344; (612) 828-1000.

Lease Plan USA, 180 Interstate North Parkway, Suite 400, Atlanta, Ga. 30339; (770) 933-9090.

Nationsbanc Leasing Corp., 2300 Northlake Centre Drive, Suite 300, Tucker, Ga. 30084-4007; (770) 270-8400. (The company also leases medium and heavy trucks.)

PHH Vehicle Management Services, 307 International Circle, Hunt Valley, Md. 21030; (410) 771-1900.

USL Capital Fleet Services, 2988 Campus Drive, San Mateo, Calif. 94403; (415) 572-2000.

Wheels, Inc., 666 Garland Place, Des Plaines, Ill. 60016; (708) 699-7000.

### Medium And Heavy Trucks

Major companies that lease or rent medium- and heavy-duty trucks to business fleets include:

Ford 1st, through local Ford heavy-truck dealers; for a dealer near you, call 1-800-FORD-1ST (1-800-367-3178).

Idealease, P.O. Box 499, Fox River Grove, Ill. 60021; (708) 304-6000.

Mack Leasing System, 2100 Mack Blvd. (Box M), Allentown, Pa. 18105-5000; (610) 709-3595.

NationaLease, One South, 450 Summit Ave., No. 300, Oakbrook Terrace, Ill. 60181; 1-800-729-6857.

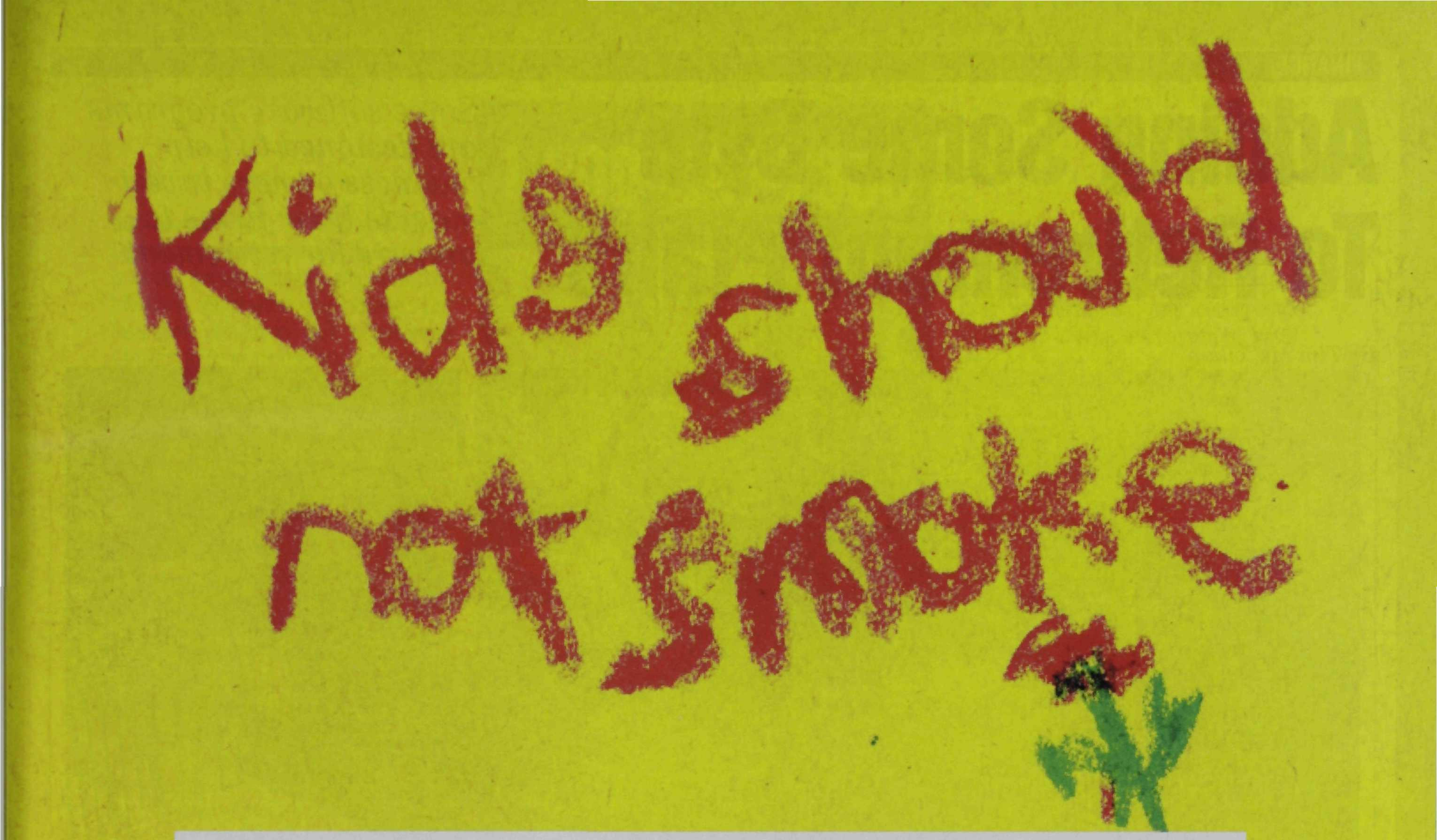
PACCAR Leasing, P.O. Box 1518, Bellevue, Wash. 98009; (206) 455-7877.

Penske Truck Leasing Co., LP, Route 10, Green Hills, Box 563, Reading, Pa. 19603-0563; 1-800-221-3040.

Rollins Truck Leasing, 1 Rollins Plaza, P.O. Box 1791, Wilmington, Del. 19899; 1-800-752-2677.

Ruan Transportation Management Systems, 3200 Ruan Center, 666 Grand Ave., Des Moines, Iowa 50309; 1-800-822-MEGA (1-800-822-6342).

Ryder System Inc, P.O. Box 020816, Miami, Fla. 33102-0816; (305) 593-3726.




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We're also supporting the passage of state legislation to more effectively enforce minimum-age laws.

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But they all help keep cigarettes away from kids.

And that's the best way to keep kids away from cigarettes.

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FINANCE

# Adding Some Byte To Retirement Plans

*Some software programs are designed to help business owners invest outside their firms to prepare for retirement.*

*By Tim McCollum*



PHOTO: ©TOM SOBOLIK—BLACK STAR

**Commercial printer** *Andrew LeWinter has been using financial-planning software to set retirement goals and to make certain that he's taking the right steps now to meet them.*

As co-owner of Dependable Lithography, a small commercial printing firm in New York City, Andrew LeWinter begins work each morning at 7 and is often up past midnight processing business-related paperwork at home.

Like many upwardly mobile baby boomers, LeWinter, in his 40s, has logged countless hours of hard work and has begun thinking about how to ensure a comfortable retirement for himself and his wife.

Most people in LeWinter's position who prepare for retirement either develop their own plans by the seat of their pants or hire a financial planner to draw up sound plans. LeWinter, however, turned to a personal computer and financial-planning software called Prosper, provided by the accounting and management consulting firm Ernst & Young. (Prosper was developed by Reality Online, a commercial software firm that markets a closely related product called WealthBuilder.)

Using Prosper, LeWinter has been able to set long-term financial goals and to see how much he and his wife will have to save on a continuing basis to reach those goals. "Without the guidance it offers, I wouldn't have known I was going in the right direction," says LeWinter, who has used the software for one year.

Most small-business owners don't plan for retirement at all, according to financial consultant David Geller of Geller & Associates, in Atlanta. While some of them generate a substantial amount of revenue from their companies over the years, Geller says, most plow the profits back into their businesses instead of investing at least some of those profits in other assets.

To protect themselves against economic downturns that could affect their companies, Geller says, they should consider investing some money outside their businesses so they'll have a better chance of building a substantial nest egg for retirement.

The need for sensible retirement investments couldn't be greater now that Social Security is projected to become a smaller percentage of income among baby-boom retirees. According to the Employee Benefits Research Institute (EBRI), in Washington, D.C., Social Security made up 41 percent of income for people 65 and older in 1992, the last year for which such figures are available.

EBRI expects that percentage to decrease over the next decade as baby

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boomers begin to reach retirement age and the number of Social Security recipients increases.

Although EBRI predicts that pension and annuity income will fill in some of the gap for retirees, many small-business owners lack such benefits.

In addition, people are living longer, so their retirement savings must stretch over more years. Planning for retirement early has become a must.

"The key for anybody with retirement savings is to start doing it and, over time, increase the amount" put into savings, Geller says. "Early retirement savings makes an enormous difference."

For example, if you start saving $3,000 each year at age 25 in a tax-deferred account earning an average of 9 percent annually, the account balance will be $1.17 million by the time you turn 65. In contrast, if you wait until age 35 to save the same amount annually, you will save $457,685; if you wait until age 45, you will save $166,971.

Mustering the discipline to plan for retirement isn't easy, but, as LeWinter discovered, help is as close as a computer equipped with one of several good financial-planning software packages. (Personal-finance programs such as Intuit's Quicken, Meca Software's Managing Your Money, or Microsoft's Money have become popular among personal-computer owners who want to keep track of everyday bills and expenses, but they aren't much help in developing long-range plans.)




**Quicken Financial Planner** *estimates the retirement income you'll need and suggests mixes of investments.*

### Two Kinds Of Road Maps

Retirement-planning software comes in two varieties: mass-market programs, available in retail stores, and private-label packages that you can buy directly from financial-services companies such as accounting and consulting firms and investment houses.

Both varieties of programs are geared toward individual financial planning, although firms such as Ernst & Young and Price Waterhouse license their software to companies that want to help their employees set up retirement plans.

Typically, both kinds of software lead you through an interview that ascertains your current financial situation and retirement goals.

Based on this information and projections for inflation, the programs tell you how much you need to set aside on a regular basis and suggest ways to invest your savings. At their best, financial-planning programs can help you create a detailed road map for reaching your retirement goals.

Intuit's entry into the mass market is Quicken Financial Planner, which has just been updated to cover a variety of long-term financial needs in addition to retirement.

The new version's QuickPlan option allows you to prepare a very basic financial plan in about 15 minutes. You can then revise that plan in more detail by following the main workbook method, a step-by-step process covering your current financial situation, retirement goals, and the impact of major purchases such as homes and college expenses.

Whichever method you use, the program allows you to enter financial information directly or import it from your Quicken personal-finance software. Both methods give you explanations and investment advice from *Newsweek* financial columnist Jane Bryant Quinn. (The CD-ROM version features audio and video clips.)

Based on your financial information, Quicken Financial Planner tells you how much you must save in order to reach your long-term goals and suggests a mix of investments such as stocks, bonds, and mutual funds. The program then analyzes the plan you choose and uses graphs and reports to explain why it would or wouldn't work.

To help you keep up with your investments, Quicken Financial Planner includes a mutual-fund-performance database from Morningstar Inc., a New York City-based investment-research company. You can download updated data from Intuit's World Wide Web site *(http://www.qfn.com)* using the Netscape Navigator browser built into the program.

A new feature helps you determine whether you have enough life insurance to continue to meet your goals if you or your spouse should die. The new college-planning module allows you to calculate college expenses using a database of 1,700 public and private colleges and universities.

Quicken Financial Planner packs a great deal of information into its financial forecasts and advice, but this can make the program difficult to use and some of the financial information hard to interpret. Even so, the program's comprehensive planning information makes the effort worthwhile.

### Starting With "What If"

Reality Online's WealthBuilder and its close cousin, Ernst & Young's Prosper, take a similar holistic approach to financial planning.

WealthBuilder and Prosper begin by compiling your investment profile using a series of "what if" questions concerning attitudes toward investing and financial risk. After they calculate your net worth and expenses, you set your financial objectives and receive "bottom line" estimates of how much you need to save each month to reach them.

As comprehensive as these programs are, they are not easy to use. WealthBuilder doesn't lead you through its financial-planning modules in any particular order and doesn't explain the icons on its menu. Consequently, you have to lean heavily on the manual the first time through. Prosper's interface and manual are easier to use.

Providing the required financial information in either program can be a daunting task unless you are importing it from a personal-finance program such as Quicken, Money, or Managing Your Money. "It's not a thing where you can take 15 minutes and plug in some numbers," says Andrew LeWinter. "But once they're in, you know the program is working on a solid base."

Prosper provides more-extensive advice than WealthBuilder about how you should invest your money. WealthBuilder, on the other hand, comes bundled with financial-planning expert Jonathan Pond's Personal Financial Planner tutorial from Vertigo Development Group, a self-help program combining text and video clips.

Both Prosper and WealthBuilder offer optional financial information through the Reuters Money Network, an on-line service that can be accessed by modem.

The sleeper in the retail category is DataTech Software's Rich and Retired. This program bases its planning assumptions not only on your current income but also on your estimates of future income, allowing for growth. This hypothetical approach is not extended to your expense

and budget estimates. Instead, Rich and Retired estimates your expenses now and what they will be at retirement; it assumes these will change only as a result of inflation. However, you can go back and adjust these estimates over time as your situation changes.

Rich and Retired's most unusual feature is its comprehensive overall and year-to-year estimates of your financial situation, complete with balance sheets and spending graphs showing the projected growth of your financial assets.

From a usability standpoint, Rich and Retired's interface screens are inconsistent. A "Help Genie" button provides some assistance, but the program's menu and "12-step" planning process are clearer if you follow the manual closely.

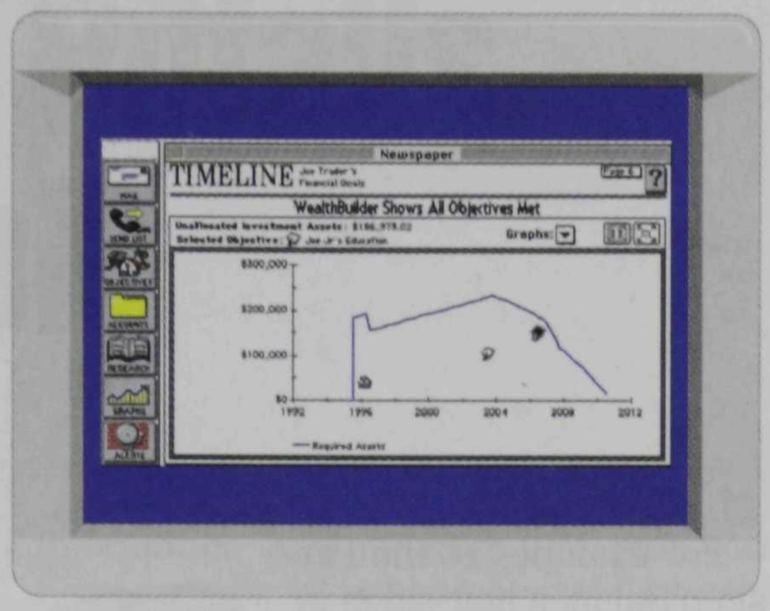
### Financial-Services Packages

Whereas the retail financial-planning packages such as Rich and Retired and WealthBuilder are action-oriented, the programs offered by financial-services firms are typically more educational. Their goal is to show users why and how they should save.

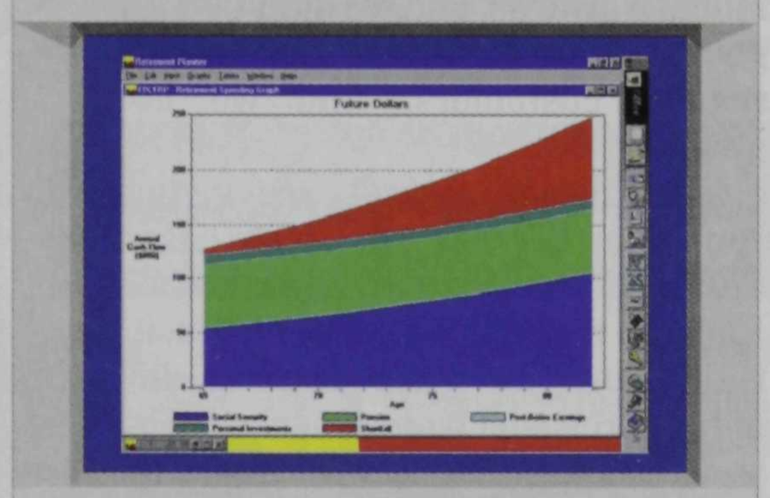
For example, Fidelity Investments' Thinkware is more of a home-study course in retirement planning than a way to formulate an actual plan. A lengthy tutorial explains investment concepts and the importance of planning for the future based on your replies to a quiz on your retirement-planning knowledge.

In addition, the tutorial makes effective use of animated graphs—they change to illustrate how various financial factors such as inflation, savings, and tax deferral can affect your retirement nest egg.

Moving into the interview sections, Thinkware uses "what-if" scenarios to help you plan. The program explains each step of the process as you go and suggests an investment strategy. The problem with this approach is that it depends more on your retirement goals and tolerance of risk than on any detailed financial information you provide.




**WealthBuilder,** *from Reality Online: Beyond retirement planning.*




**Retire Secure,** *from Price Waterhouse: Conservative investing.*

And Thinkware's advice isn't for those averse to risk; it leans heavily on stocks and mutual funds and downplays more-conservative strategies.

Similar advice is offered by Vanguard Retirement Planner, an easy-to-use program that pushes the Vanguard Group's stock funds. Retirement Planner's primer section is an interactive textbook that explains investment principles in simple terms and gets information about your financial situation and retirement plans.

Comparative graphs and historical market data in the savings and portfolio planners show how your current savings strategies measure up and the risks and returns of the investment strategy that Retirement Planner recommends for you.

For all of its educational value, Retirement Planner's advice can appear one-dimensional. The program imposes investment strategies on you rather than letting you choose among several alternatives. And no matter how conservative an investor it decides you are, its standard advice leans heavily on stocks.

Price Waterhouse's Retire Secure takes a more conservative approach to investing. A true CPA's planning system, this program emphasizes tax-deferred savings and eschews stock and mutual-fund advice.

Retire Secure asks first-time users to enter basic financial information, retirement goals, and estimated retirement benefits, which can be revised later to incorporate more detail.

When you have completed the interview, Retire Secure gives you a rundown of your financial situation and tells you whether your retirement spending goals are attainable. If you want to revise any of the assumptions, just add a new figure on the appropriate line.

Retire Secure also allows you to factor in the income you will need at different stages of retirement rather than assuming you will need a constant income.

Even though the Price Waterhouse program allows for detailed estimates of retirement income, it assumes that income will be constant over your working years and doesn't give you an indication of how taxes will affect your nest egg.

Another drawback is Retire Secure's user interface, which is difficult to follow because it lacks real instructions about what the charts and lists mean or how to make more-detailed revisions.

No matter whether they are trying to educate or to provide actual financial plans, financial-planning software programs can be a good first step in planning your retirement. Financial planner Geller says these programs can build awareness about the importance of retirement and can give small-business owners baseline ideas about what they will need to retire comfortably.

Individuals should still seek professional advice, he says, when the time comes to make financial decisions, but financial-planning programs can help them make the right choices. NB

## Programs For Planning

Software packages that can help with financial planning for retirement include the following:

**Prosper,** available for Windows, $44.95. The Reuters Money Network on-line service option is available for $7 to $30 per month. From Ernst & Young; 1-800-277-6773.

**Quicken Financial Planner** for Windows, available on diskette or CD-ROM, $39.95. From Intuit; 1-800-624-8742.

**Retire Secure,** available for DOS and Windows, $45. From Price Waterhouse; 1-800-752-6234.

**Retirement Planner,** for DOS and Windows, $18. From the Vanguard Group; 1-800-876-1840.

**Retirement Planning Thinkware,** for DOS and Windows, $15. From Fidelity Investments, 1-800-457-1768.

**Rich and Retired,** for Windows, $59.95. From DataTech Software; 1-800-377-3213.

**WealthBuilder,** available for Macintosh and Windows, $49.95. The Reuters Money Network option is $7 to $30 per month. From Reality Online; 1-800-346-2024.

MARKETING

# From The Ground Up

*Rewarding customers with airlines' frequent-flier miles is a sales incentive that's taking off at small firms.*

*By Peter Weaver*

For years, American Express, AT&T, Citibank, Hertz, MCI, and a host of other well-known major companies have been involved in airline partnerships through which their customers can earn frequent-flier miles.

Now, small businesses such as car dealerships, travel agencies, and retail stores are getting into the act with their own programs for awarding customers airlines' frequent-flier miles.

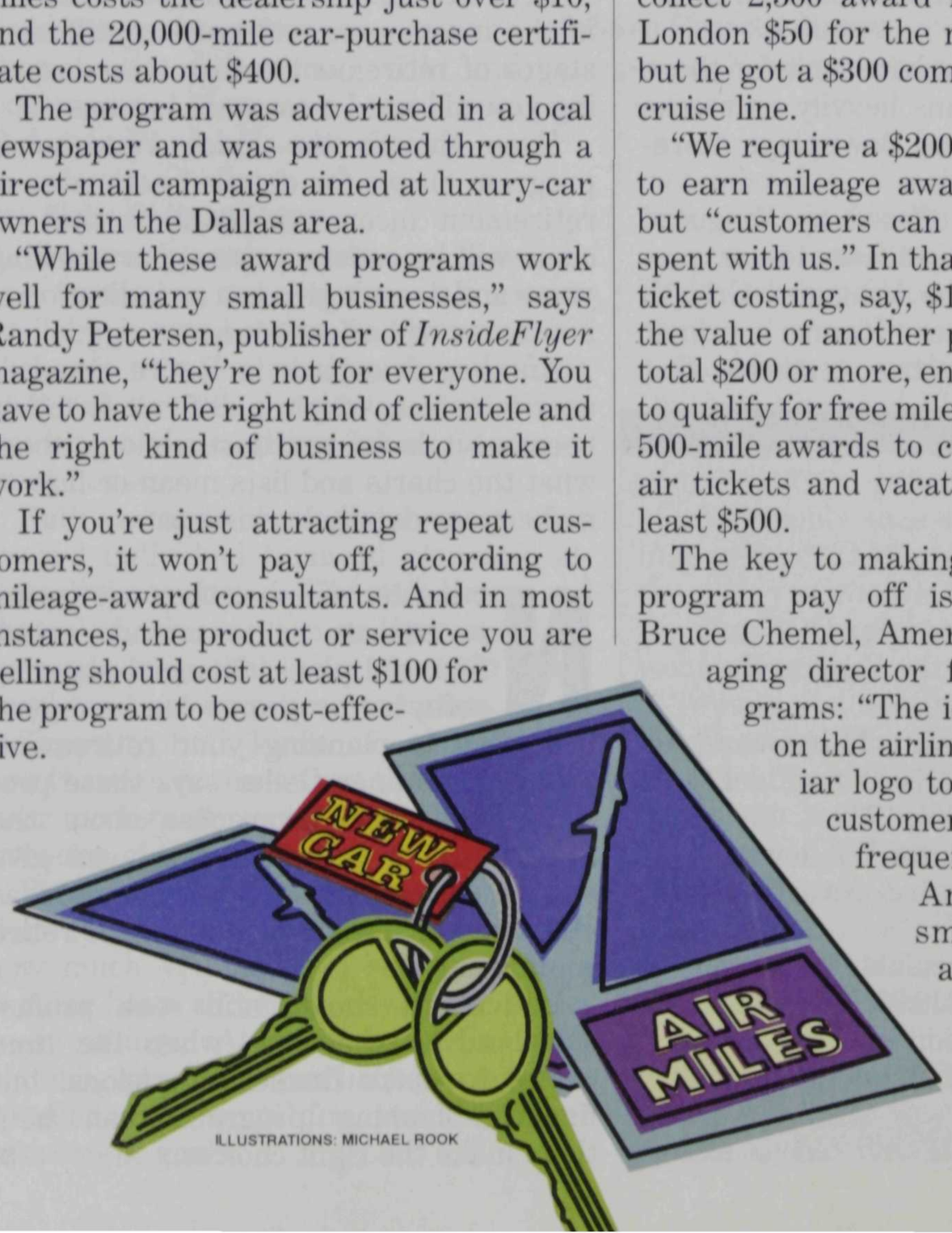
"We brought in a lot of new business with our American Airlines award promotions," says Tod Meier, president of Roger Meier Cadillac, a dealership in Dallas. "When you test drive a Cadillac," he says in explaining his firm's arrangement, "you get a 500-mile award certificate, and if you buy the car, you get 20,000 miles."

Meier's company purchased frequent-flier award miles for 2 cents a mile plus a modest service charge. Thus, the test-drive certificate for 500 frequent-flier miles costs the dealership just over $10, and the 20,000-mile car-purchase certificate costs about $400.

The program was advertised in a local newspaper and was promoted through a direct-mail campaign aimed at luxury-car owners in the Dallas area.

"While these award programs work well for many small businesses," says Randy Petersen, publisher of *InsideFlyer* magazine, "they're not for everyone. You have to have the right kind of clientele and the right kind of business to make it work."

If you're just attracting repeat customers, it won't pay off, according to mileage-award consultants. And in most instances, the product or service you are selling should cost at least $100 for the program to be cost-effective.




ILLUSTRATIONS: MICHAEL ROOK

For example, at the Paragon Salon, a hair salon in Miami, owner Basya Kotlechkot says: "We tried using American Airlines mileage awards, and we didn't get any new business—just our regular customers. And we lost money."

But mileage awards are giving All American Travel, in New Britain, Conn., a competitive edge, says Kal London, the firm's president. Business is up since he started using airline miles purchased from American, Delta, and United.

To date, no other travel agency in the area offers frequent-flier awards, he says, and he's making the most of the situation by advertising his mileage-award feature in local newspapers.

"One new customer," he says, "drove 35 miles from another county to book a cruise with us so he could collect 2,500 award miles." It cost London $50 for the mileage award, but he got a $300 commission from the cruise line.

"We require a $200 minimum purchase to earn mileage awards," London says, but "customers can accumulate dollars spent with us." In that way, the value of a ticket costing, say, $130 can be added to the value of another purchase later on to total $200 or more, enabling the customer to qualify for free miles. The agency offers 500-mile awards to customers who book air tickets and vacation trips costing at least $500.

The key to making a mileage-awards program pay off is advertising. Says Bruce Chemel, American Airlines' managing director for marketing programs: "The idea is to piggyback on the airline's name and familiar logo to attract the kind of customer who tends to be a frequent traveler."

American provides small-business mileage-award customers with sample advertising copy that has worked for other small firms, and the airline also offers some coaching on how to use direct-mail campaigns, TV commercials, and radio spots.




All airlines require new mileage-award partnership customers to sign a contract that requires them to have all advertising designs and wording approved by the airline before they go into print or on the air. Even on-site window displays have to be approved.

"We only used a sign in our window and some smaller notices inside," says Daniel Crlencic, manager of Woodward & Maple, an antique and home-accessory boutique in Birmingham, Mich., near Detroit. Northwest Airlines had to approve the display, Crlencic says, "but it was easy—no problem."

If you're interested in finding out how your business might benefit from offering frequent-flier mileage awards to your customers, call the airlines. Before you take the plunge, however, make sure you have a product or a service that is priced right, and be sure your prospective customers have the money and the inclination to be frequent travelers. NB

TECHNOLOGY

# Pluses And Pitfalls In Voice Mail

*Designed to cut costs and raise productivity, these systems are now priced within small firms' reach; but don't let yours turn customers away.*

*By Cynthia Scanlon*

It's happened to you: Your phone call to a company is answered not by a person at the other end but by a recorded voice offering you a menu of options to choose from and phone buttons to press. Interactive voice response (IVR) technology is here to stay, but it can frustrate and annoy as readily as it facilitates customer service.

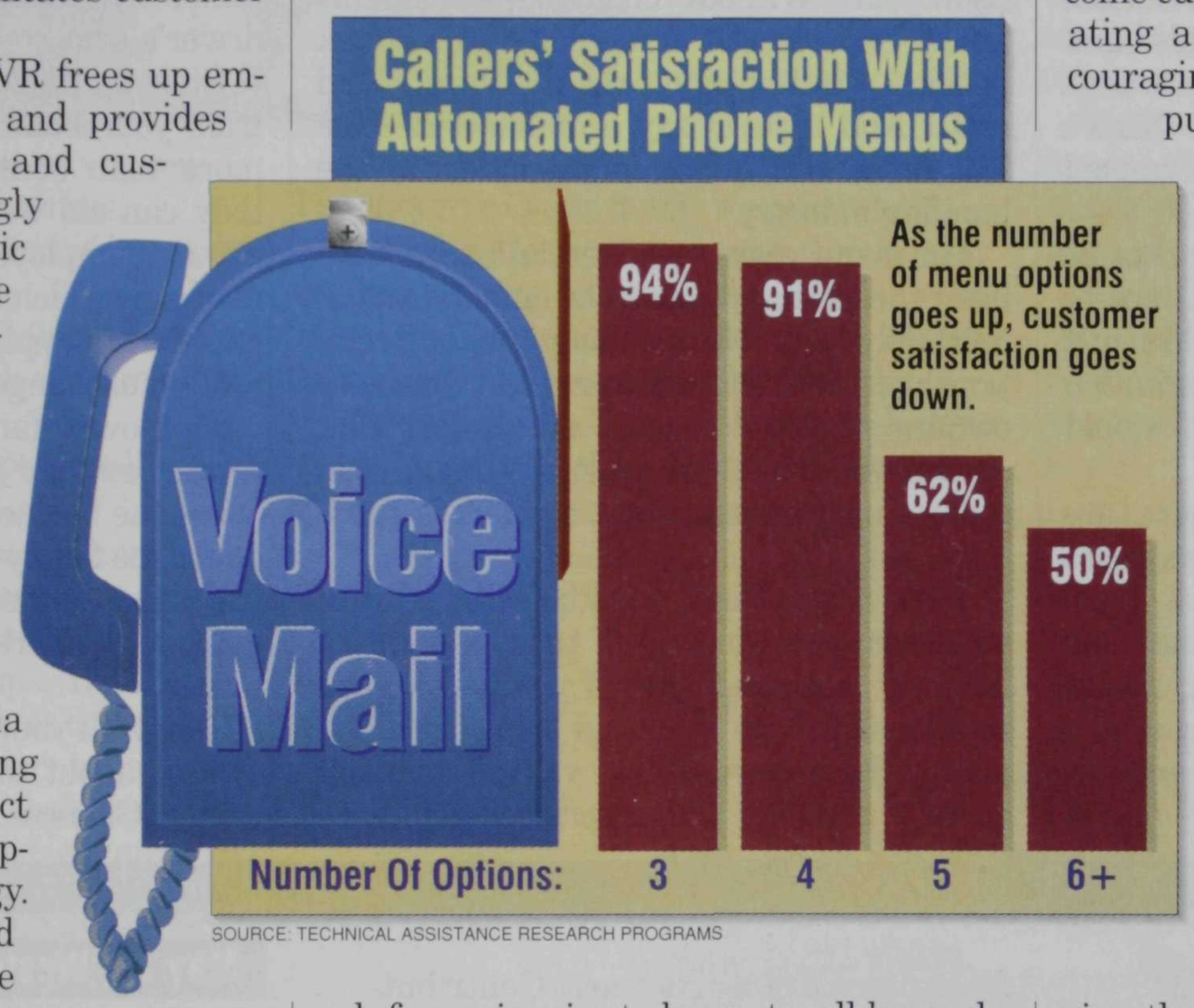
Many companies find IVR frees up employees for other duties and provides convenience for clients and customers. It is increasingly used to disseminate basic information, to route callers to various departments, and to assist in simple financial transactions. Industry analysts estimate that the technology will be a $1.2 billion market this year.

"Larger companies are saturated with this technology," says Tricia Lester, director of marketing programs for Syntellect Inc., a Phoenix-based supplier of IVR technology. "Our marketing is toward smaller companies because the technology is moving down in price. And smaller companies are installing it because the technology is now tested and proven successful."

Quality systems that handle one or two incoming lines can be purchased for as little as $4,000. And for many companies, the cost of installing a new system can be recovered in the first year or two through increased productivity and reduced telephone staffing.

Voice processing has been a boon to the two major newspapers in Nashville, Tenn., the *Nashville Banner* and *The Tennessean*, which are separately owned but perform some administrative functions through a single staff. Before installing an IVR system, the newspapers had difficulties hiring people to run their customer-service operations effectively. "We've had an unemployment rate of 2 percent in our market," says Patti Gibbons, director of customer information and programs. "I had positions open for more than a year that were going unfilled." IVR filled the void.

Now, customers can request a replacement for a damaged or missing newspaper, change their delivery service, temporarily stop their newspaper during vacations, or ask for an invoice to be sent—all by pushing the right numbers.



SOURCE: TECHNICAL ASSISTANCE RESEARCH PROGRAMS

For businesses where staffing isn't a problem, IVR systems can free employees from many routine or repetitive tasks. Workers at the six branches of First National Bank of Hudson, Wis., "have become more efficient in their daily work" with the help of the new IVR system, says Susan Gilbert, executive vice president for operations. "They're not scrambling at 4 in the afternoon to try and get things done."

Customers now can obtain balances on checking and savings accounts, loan balances, payment and delinquent-account information, and interest, principal, and escrow amounts on mortgage loans. What's more, this information can be accessed 24 hours a day, seven days a week.

"This 24-hour access to information is one of the great advantages of IVR technology," says Syntellect's Lester. "Small businesses typically don't staff to handle those hours, but now they can without hiring more people."

If a company is going to install an IVR system, it should do so prudently, says John Goodman, president of Technical Assistance Research Programs, in Arlington, Va. Much of the technology is routinely misused, he says. For example, he explains, "in the process of trying to become customer-oriented, salesmen are creating a disaster and companies are encouraging them to do it. Companies are pushing every salesman to run around, hand out business cards, and say, 'If you have any questions or problems, give me a call.' You then call him and get voice mail.

"The minute a customer gets voice mail, you take a 10 percent hit in customer satisfaction because they cannot get their problem solved immediately."

Goodman also warns that many companies allow callers to get trapped in voice mail without being able to get out. "You are in voice-mail jail, which frustrates the dickens out of customers as well," he says.

Goodman and Lester agree that not only must you always give the caller the option of speaking to someone, but your IVR system must also limit the number of menu options it offers. Research indicates that three options yield a 94 percent satisfaction rate, and four options a 91 percent rate. "Five options drops your satisfaction rate to the 60s, and six or more options drops the level to [50 percent or less]," Goodman says.

Companies looking into IVR technology, Lester says, should research the systems and options available by examining publications such as *Telephony, What To Buy For Business, Managing Office Technology,* and *Communication News.*

Finally, she recommends that companies check an IVR firm's references thoroughly before deciding to do business with it. "There are a lot of 'garage shop' companies that buy off-the-shelf hardware and try to incorporate it into existing technology," she says. "If small companies are not careful, they can get burned." NB

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*Cynthia Scanlon is a free-lance writer in Tempe, Ariz.*

# Family Business

PLANNING

## What To Do When Banks Play Musical Chairs

*By Norbert E. Schwarz and Craig E. Aronoff*

After doing business with one bank for 30 years, a family-business owner we'll call Bill Herrington "lost" his bank. When his bank was acquired by a larger one, he wasn't really surprised—despite his old bank's repeated insistence that it was determined to stay independent.

Herrington knew it would happen, but he was disappointed. Still, he resolved not to take the easy way out. He wouldn't just keep doing business with the institution that absorbed his old bank—he would consider new options.

In the United States today there are 3,000 fewer banks than there were six years ago. Few family businesses have been untouched by this trend. One business we know had a strong relationship with a local bank for generations. It was acquired by a large regional bank that traded it to another regional bank that was acquired by one of the nation's largest banks—all in a period of eight years. Without "changing" banks, this family experienced three changes in bank policies, technology, relationships, and costs. And experts say economies of scale will drive still more consolidation in the banking industry.

For many years, commercial banks have been the primary source of outside capital for family-owned firms. Long-standing relationships between bankers and business owners provided a level of comfort that capital would be there when needed. But in today's environment, that comfort is eroding.

What to do? First, don't be satisfied with wherever you wind up in today's game of banking musical chairs. If you had a good relationship with your old bank, rest assured that you are a valued banking customer. Banks are experiencing intense competition and more-sophisticated customer demands. Climb back into the driver's seat.

Start by thinking through what you want from your bank. Banks can provide much more than access to credit. Increasingly, they can aid with cash management, help manage employee benefits, provide benchmarks by which to judge company performance, and supply a host of services, from foreign exchange to business valuations.

Moreover, family businesses are often concerned not just with what the bank offers the business but also with what it can do for the family—providing personal banking, trust services, and, most important, a genuine understanding of family businesses.

Talk with your advisers or other business owners about their experiences with their banks. Chances are they will recommend

## MARK YOUR CALENDAR

### May 9, Naperville, Ill.

The "Quarterly Estate Tax and Family Business Update," a two-hour seminar, is free to CPAs, $25 for others. To be repeated May 20 in Rosemont, Ill., and May 21 in Northbrook, Ill. Call Bradley K. Walton of the MassMutual Family Business Initiative at (312) 380-8700.

### May 13, Palisades, N.Y.

"The Challenge of Change" is the theme of the 1996 conference of the Family Business Council of Greater New York. *Nation's Business* Editor-At-Large Sharon Nelton is a keynote speaker. Call Rosann Levy or Kendo Scott; (212) 684-7144.

### May 14, St. Louis

"The Role of the Non-Family Executive in the Family Business" is a seminar featuring *Nation's Business* Contributing Editor John L. Ward. Call the Family Business Forum of Southern Illinois University at Edwardsville at (618) 692-2668.

### May 14, West Haven, Conn.

"Finding the Power of Your Family Business" and "Mothers, Daughters, Wives, Sisters, Spouses: The Multiple Roles Women Play in Family Businesses" are workshops offered by the Center for Family Business at the University of New Haven. For more information, call Michael W. Camerota at (203) 932-7421.

### May 22, Smithfield, R.I.

"Justice and Fairness in the Family Business" is the theme of the fifth annual Rhode Island Family Business Conference.

Call the Institute for Family Enterprise at Bryant College at (401) 232-6477.

### May 23, Weston, Mass.

"Managing Family Conflict: Top Ten Communications Problems in Family Owned Business" is a roundtable discussion and workshop. Call Paul I. Karofsky, director of the Northeastern University Center for Family Business, at (617) 320-8015.

### June 4, Toledo, Ohio

"A Hands-On Case Study in Succession Planning" is a seminar that explores estate planning in family businesses. Call Debbe Skutch at the University of Toledo Center for Family Business at (419) 530-4058.

### How To Get Listed

*This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

that you choose a bank large enough to serve your needs yet small enough to give you personal service. They will also tell you that much depends not only on finding the right bank but on finding the right banker. You should seek a banker who:

■ Is a respected lender within the bank.

■ Has above-average experience, particularly in your industry.

■ Is highly self-confident.

■ Offers insights and ideas to improve your business.

■ Is open and direct in discussing your needs and those of the bank.

■ Has a track record of helping companies get capital from the bank or from other sources.

■ Merits your respect personally and professionally.



ILLUSTRATION: TROY THOMAS

Unfortunately, a symptom of changes in the banking industry is turnover in the ranks of the bank officers with whom you may have direct relationships. Build solid rapport with bank managers at the highest possible level. Make it clear to account officers that you will assess their performance in part by their ability to facilitate your relationships with their superiors.

When you commit to a banking relationship, you can protect it by carefully tending it to keep it strong. As with all relationships, communication is the key.

We've found that the following advice well serves family-business banking relationships:

■ Ask your banker to review regularly your company's financials, whether or not you are borrowing.

■ Make sure that successors in the business are involved in the banking relationship and that your bankers understand your management and ownership plans.

■ Encourage your present bank and banker to learn more about how family-owned businesses function generally and how your specific business benefits from your family's commitment.

■ Understand all you can about your bank, including knowing the bank's board directors, its mission and strategy, and its loan policy and loan-approval process.

If you haven't done so already, ask your bank for a copy of its financial statements and its Community Reinvestment Act statement, which must spell out its loan policies. Good relationships are built on mutual understanding.

We'll end with a note to any bankers who might be reading this column. Your good, business-owning customers are concerned, uncomfortable, and increasingly skeptical about banks. That translates into a great opportunity for those who can live up to the standards of "relationships" and "partnerships" that most banks claim.

Work to gain a real understanding of the way family businesses operate, what makes them strong, and what makes them special as customers of the bank. That effort will pay off by enabling you to retain existing customers and enhancing your capacity to serve them profitably, and by enabling you to gain new clients in the tide of bank customers set adrift by consolidation.

Moreover, as your understanding of family businesses permits stronger relationships, the quality of your loan portfolio will also improve.

What feels like a crisis for many banks and their family-business customers can become a real opportunity. By developing good relationships, all parties can come out ahead. ■





PHOTO: ©ALLISON SHERREFFS

*Craig E. Aronoff, left, holds the Dinos Chair of Private Enterprise at Kennesaw State College, in Kennesaw, Ga. Norbert E. Schwarz has held top executive positions in both banking and family businesses. Both are principals of the Family Business Consulting Group, headquartered in Marietta, Ga. Copyright © by the Family Business Consulting Group, Inc.*


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FAMILY BUSINESS

# Case Study: Keep The Firm In The Family?

Just when it looked like Marie and Mark Henson, both 60, could sell their Saltillo Tile Co. for the price they wanted, their oldest daughter, Lynn, made a surprise announcement. "Rather than sell the company to someone outside the family," she suggested, "I want to buy it."

The Henson daughters—Lynn, 30; Amy, 28; and Sara, 25—all attended college, but Lynn is the only one who graduated. Amy and Sara are both married and live out of state; neither has shown much interest in the company.

Lynn doesn't want to let this opportunity slip by. She worked at Saltillo as a clerk in the front office while getting an MBA, and she appreciates the long hours her parents have spent expanding the business. She also understands their need to be free of the company and to have the resources to maintain their lifestyle and to travel.

Lynn used her parents' company as the subject of a case study for several of her business classes and was encouraged by the potential it offers. Marie and Mark are trying to be flexible so Lynn can have the opportunity to buy them out. They want to be completely free of the 20-employee company, however.

As much as Lynn wants the company, though, she doesn't know how she can afford it. "It was recently valued at $2 million," she says, "and I certainly don't expect my parents to sell it to me for any less."

Lynn was introduced to the traditional ways of purchasing a business in her graduate classes. "But," she asks, "are there some ways to purchase a family business that will assure my parents' security in terms of their future while minimizing their tax exposure?"




ILLUSTRATION: TROY THOMAS

Response 1

## The Surprise That Shouldn't Be

It is the surprise of Lynn's telling the family her plans when the family business was on the verge of being sold that is the crucial factor in this case.

Did the parents think she was earning an MBA in order to join IBM? Lynn says she knows her parents need security, but is she really prepared for the pressure that their continued needs might put on her and the business? And what about the loyal, productive employees of Saltillo Tile Co.—who is thinking about their welfare?



PHOTO: ©CINDY LOO—BLACK STAR

*Richard L. Narva, an attorney and principal consultant with Genus Resources, Inc., a family-business consulting firm in Needham, Mass.*

I am struck by how often poor communication lies at the root of acute family crises. This company is not in dire straits—it's worth $2 million, and no emergency exists to consume everyone's time and energy. Lynn and her parents could have planned and discussed the future of the business.

This case is not about succession or about how to do a deal. It is about a failure to communicate.

At this point, the parents' decision must be guided by asking, "What is in the best long-term interest of the company, its stockholders, and its employees?" To me, the answer is a sale to a third party for fair market value. Unless the parents are willing to stay on for another five years minimum while they groom Lynn for leadership, or unless there is a nonfamily manager skilled, able, and willing to run the company while mentoring their daughter, it would be imprudent and disloyal to all those who built the firm to sell it to Lynn. She has much potential but little proven management skills or experience.

Response 2

## Commitment Can Be An Asset

Any sale that involves holding paper is risky. Lynn's MBA guarantees nothing, but neither does a down payment from an outside, unqualified buyer. What an outsider brings in cash, Lynn compensates for in commitment and sweat equity. The Hensons might explore these options:

■ **Creating a family limited partnership,** with the parents as general partners and Lynn and her sisters as limited partners. Peg the business at $2 million so that Lynn doesn't pay for future growth, which accrues outside the parents' estate. Lynn makes regular payments into a fund established for the purpose of accumulating a respectable down payment. Lynn has now transformed her sweat equity into ready cash during a vital apprenticeship period. This plan also enables the parents to gift Lynn's sisters.

■ **Lynn purchases the company** by becoming majority shareholder of a separate new corporation, paying on a note held by her parents. Careful budgeting and frank discussion would be necessary to agree on a payment schedule that is feasible—according to Lynn's ability to pay and her parents' retirement needs.



PHOTO: ©CINDY LOO—BLACK STAR

*Ira Bryck, former owner of a fourth-generation family firm and director of the University of Massachusetts Family Business Center, in Amherst.*

■ **Selling business assets** to an outside investor, then leasing back. This provides sufficient capital to the firm for operations and to the parents for retirement and for gifting Lynn's sisters.

If the parents sell to Lynn, they are risking a secure retirement to provide an opportunity for her. But that is the price of keeping the business in the family, and many would choose to pay it with pride.

**This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions *do not necessarily reflect the views of the* institute. Copyright © by the Family Firm Institute, Brookline, Mass.**

SMALL BUSINESS COMPUTING

# The Case For E-mail

*While this tool for speeding communication has some downsides, the advantages outweigh the disadvantages for small firms.*

*By Tim McCollum*

Every few hours when he's away from the office, attorney Charles Rosolio fires up his laptop computer and dials via modem into the electronic-mail system at the Baltimore headquarters of his firm, Rosolio, Silverman & Kotz.

E-mail is the tie that binds for Rosolio, allowing him to conduct business communications at any time of day, from any location—whether it's across town or across the country.

"Some people laugh when I take my laptop with me," he says. But the modem-equipped portable computer and its e-mail software are no laughing matter to Rosolio's colleagues and clients, who, he says, "know if they call and I'm out, they'll get some kind of response" within a short time.

Rosolio, whose 12-person firm specializes in corporate and small-business law, is one of the growing legion of small-business people who use e-mail as a communications tool. E-mail allows people to exchange messages by computer with employees, clients, and potential customers.

About 23 million people used e-mail at work in 1994, compared with 12.2 million the preceding year, according to a recent study by the industry's trade group, the Electronic Messaging Association, in Arlington, Va. Indeed, an e-mail address is becoming a common feature on business cards.

Until recently, e-mail systems were used mainly in big companies where large numbers of employees in one or more business locations needed to communicate with one another over computer networks. Small companies generally didn't need—or couldn't afford—expensive network hardware and e-mail software packages.

But hardware and software prices have dropped lately, and small-business owners have begun re-evaluating e-mail as a partial alternative to telephones, faxes, and letter mail for expanding their reach beyond the office to employees, contractors, business partners, and customers.

"I think [e-mail] is definitely going to be more important for a small business" in the coming years, says Mary Cronin, author of *Doing More Business on the Internet*. "E-mail is very effective" not only for serving customers, she says, but also for "getting better service for yourself."

It also encourages greater collaboration among employees and may increase productivity by streamlining communication through reduced reliance on paper, she says. In addition, e-mail makes it relatively easy for companies to distribute work to temporary workers, independent contractors, or telecommuting employees.

"It's been pretty incredible as far as being another communication tool," says Joel House, manager of information systems for Louis London Inc., a St. Louis advertising firm that adopted e-mail two years ago to improve communications among employees and with clients.

E-mail has relieved some of the firm's recent growing pains, House says. In two years the firm has doubled in size to about 100 employees; it has opened regional offices in Milwaukee, Dallas, Raleigh, N.C., and Reston, Va.; and it has taken on major clients such as Miller Brewing Co., in Milwaukee, and trading-card maker Upper Deck Co., in Carlsbad, Calif.

Having employees and clients in several locations makes it tough to coordinate advertising projects, but Louis London's e-mail helps by allowing people to exchange messages and files quickly and easily. To make this possible, the firm has equipped the computer networks at each of its offices with GroupWise e-mail software, from Novell Inc. of Provo, Utah. To communicate with clients, Louis London contracted with AllegroNet, an e-mail provider in Dayton, Ohio, that links GroupWise users to the Internet via an 800 number.

Like some other companies, Louis London has combined its local, private messaging networks with e-mail over public

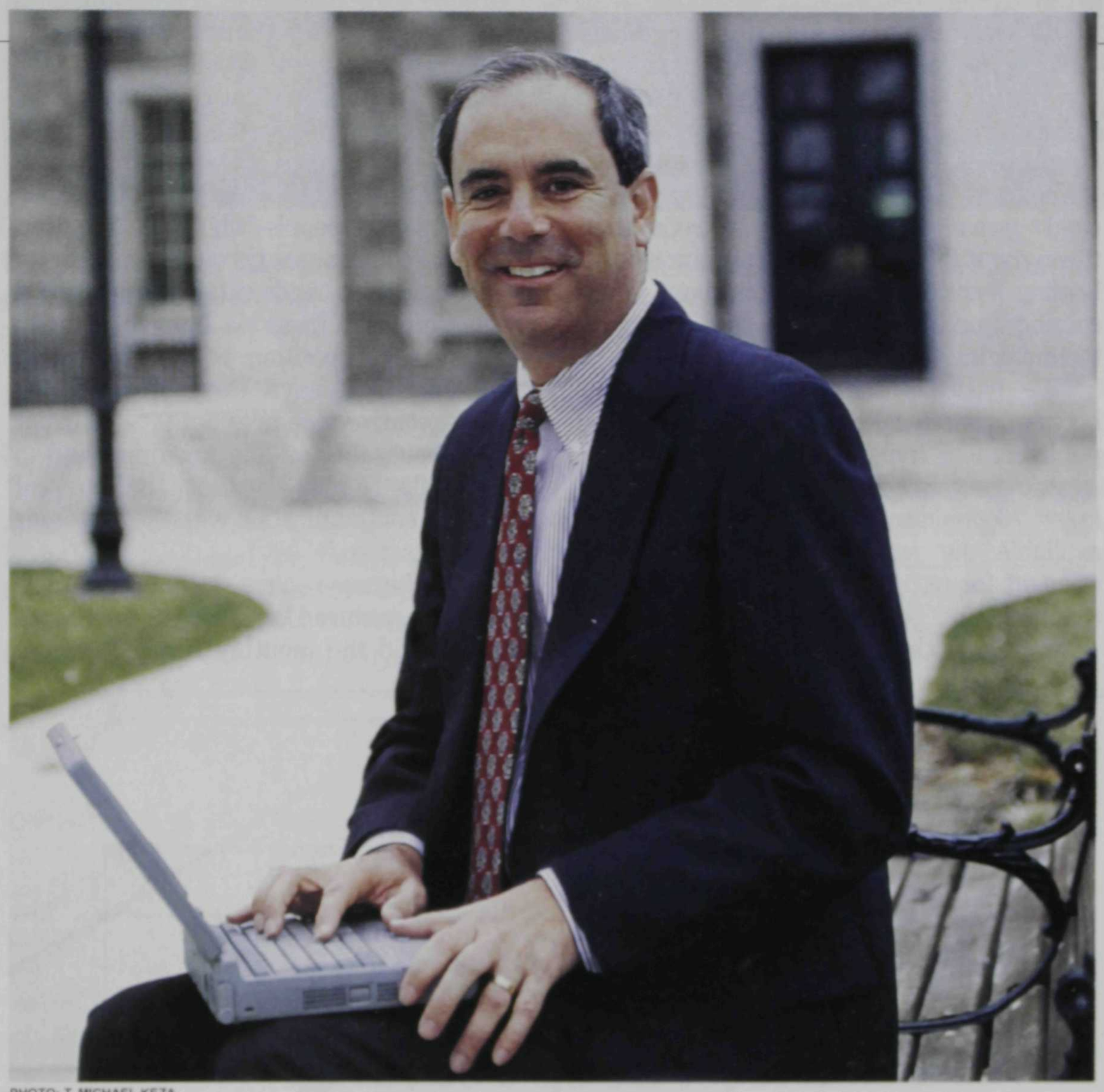


PHOTO: T. MICHAEL KEZA

**Electronic-mail capability** *on a modem-equipped laptop computer is serious business that has Baltimore attorney Charles Rosolio smiling.*

networks such as the Internet or commercial on-line services, including America Online, CompuServe, and Prodigy. By extending the capabilities provided by an internal computer network to a public network, companies can communicate with people outside the firm.

Because the Internet is a global system that consists of thousands of local networks and because e-mail messages travel over the Internet at very high speeds, these missives can give a small company an effective international reach.

Quantum Books of Cambridge, Mass., used e-mail to develop a reputation throughout the engineering community as a leading source of information about forthcoming and current books on emerging technologies.

"We basically have become a conduit between technical-book buyers and any publishers of technical books" worldwide, says owner Bill Szabo. "People want to know electronically" if a given book is available, he says, "and it's just more efficient for us" to serve customers in that manner.

Szabo says the store set up an e-mail link through a local Internet-access provider five years ago at the request of customers at nearby Massachusetts Institute of Technology. Now Quantum Books has one full-time employee responding to customer e-mail requests from around the world and is compiling a database of technical-book information to make it easier to respond to such requests.

Other technology-oriented companies have had similar experiences. For example, Pittsburgh computer reseller Dakco PC Products Division Inc. has combined e-mail and a World Wide Web site on the Internet to market computers and computer parts. Dakco has compiled a database of 10,000 customers and people who have inquired about Dakco products through e-mail or by telephone, and it sends catalogs and special product offers to them via Internet e-mail.

"They say repetition is the essence of communication," says Dave Kolarik, the firm's executive vice president. "The great thing about the on-line medium and a vehicle like e-mail is that the cost of repetitive communication with the customer approaches zero."

That's because once a company has bought the required hardware and software and has paid the monthly Internet access

# Making The Connections

Small-business owners have a variety of options for meeting their e-mail needs.

For messaging within a company, a firm must connect its computers to a local computer network running one of the many e-mail software programs. They include Lotus cc:Mail, from IBM Corp.; Exchange, from Microsoft Corp.; GroupWise, from Novell Inc.; and DaVinci Mail, from On Technology Corp. All four provide features that allow people within a company to exchange messages, schedule group meetings and appointments, and participate in group discussions via bulletin boards.

Using special "gateway" software, e-mail programs can also be configured to connect by modem or dedicated leased line to remote networks and to the Internet.

Connecting to the outside world is becoming cheaper and easier. Once the leading choice of businesses, private network e-mail services such as AT&T Mail and MCI Mail give companies a number of mailboxes and charge them for each message sent.

Commercial on-line services such as America Online, CompuServe, and Prodigy can double as e-mail services, and they have been popular with small businesses because they are easy to use and affordable, with rates starting at less than $10 a month.

Increasingly, small companies are opting to connect to the Internet through an Internet service provider, known as an ISP. Dial-up services such as AllegroNet and dotNet provide Internet mail for companies running internal e-mail systems such as GroupWise, cc:Mail, and Microsoft Mail, allowing them to exchange mail for about $100 a month.

AT&T's WorldNet Service and MCI's networkMCI are geared toward the business market and can provide dial-up and dedicated connections. Small companies, however, can often get competitive rates—in the range of $10 to $20 a month—as well as free e-mail software from local and regional ISPs.

A higher-cost option but one that has decreased in price in the past two years is a dedicated leased-line connection between the Internet and a company's local computer network. Such a link involves installation of a data line that a company can lease to connect a local network to the ISP at high speed.

The cost of such a line now ranges from $250 a month for a fast integrated services digital network (ISDN) connection to $2,000 a month for ultra-high-speed T-1 service.

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charge, its e-mail is virtually free.

Dakco isn't the first company to try direct marketing by e-mail, and it has learned from the experiences of the pioneers. The basic lesson: Target your market; don't just send e-mail to everyone.

Direct marketing is frowned upon by many Internet users. Tempted by the large Internet user base, some marketers have sent mass mailings—"spams," in Internet parlance—to Internet users, only to have their e-mail boxes overwhelmed by angry protests, called "flames." In fact, most Internet-access providers now include clauses in their user agreements that discourage or prohibit such mailings.

A more recent concern is the use and sale of e-mail lists. Generally, companies such as Dakco send mailings to people who have provided their e-mail addresses voluntarily. The trouble comes when the lists are sold to other companies. Internet users are notoriously concerned about their privacy, and receiving unsolicited information tends to raise a red flag, according to author Cronin.

Despite a cultural skepticism about direct marketing, Cronin says, there are signs that the Internet is becoming more tolerant of it. "I don't think it's become as big a problem as people were worried about a year ago," she says, noting that part of the reason is that users' interests have been shifting from news groups to the World Wide Web. Still, she says, given how easy it is to reach people by e-mail, "it's surprising there's not more of it."

Establishing e-mail in a business isn't without its potential problems, however. If not managed properly, it can consume a great deal of time and energy. It's not that people will spend their time using e-mail for personal use (although some will); it's that e-mail messages can accumulate—and fast. Generally, the more you send, the more you receive.

The key to coping is to develop a strategy for dealing with incoming messages on a regular basis. That often means deciding which messages to read, which to answer, and which to jettison into cyberspace.

It's also important for companies to set policies on use of e-mail. Cronin says such a policy should define appropriate uses for e-mail and establish rules of etiquette, such as not sending copies of messages to everyone on a company network. Some small-business owners may want to limit the number of employees with access to e-mail.

From a legal standpoint, companies should also establish policies on e-mail privacy, say attorneys in the field. Employees often expect their e-mail to be private, but case law is still unclear as to whether employee e-mail is private or whether business owners or managers have the right to read these messages.




PHOTO: ©BOB RANSOM—BLACK STAR

**Electronic mail has helped** *St. Louis advertising firm Louis London Inc. adapt to rapid growth, says Joel House, manager of information systems.*

Another concern is the security and confidentiality of e-mail received via the Internet. Small-business owners such as attorney Rosolio are playing it safe by adopting closed-end or limited-access e-mail systems that don't involve the Internet.

Ultimately, companies will choose their e-mail strategy based on their needs. Despite all the hype that's been connected with it, e-mail is just a communication tool, and as with the telephone and the fax before it, the value of e-mail will come down to its usefulness in a given business situation. NB

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REGULATION

# Leveling The Pricing Field

*Some states are moving to ban the charging of either sex more than the other for the same services or products.*

*By Frances Cerra Whittelsey*

Janet Borgens' reaction was an outraged "No way!" She had just learned of a California legislative proposal to prevent firms from charging men and women different prices for essentially the same services. Discriminatory pricing didn't exist, she maintained, and thus no such law was needed.

Borgens owns The Beauty Wheel, a four-chair hair salon in Redwood City, and is also the legislative representative for the California Cosmetology Association. She had always charged her customers according to the work involved, she says, not according to whether the customer was a man or a woman.

Contending there was no gender discrimination in her industry's pricing practices, she conducted her own research. "My husband and I both called around" to salons, she says. "I didn't believe it, but when I called, I was quoted one price, and when he called, he was quoted a lower price. It was going on, and I didn't believe it."

Convinced that a problem indeed existed, Borgens and her association came out in support of the proposal. It was signed into law last year and took effect Jan. 1, making California the first state to explicitly ban gender-based pricing for services. A company found in violation can be assessed up to triple damages, or $1,000, whichever is higher, plus attorneys' fees.

Although California's law applies only to service firms such as hair salons and dry cleaners, advocates' focus on gender-neutral pricing can also include products such as clothing (jeans and sweaters, for example), toiletries, or other items that can be virtually identical but priced differently for men and women.

Besides California, some states and localities have human-rights laws that ban gender pricing, and others are contemplating such measures. Human-rights laws in New York City, Washington, D.C., and Massachusetts already include gender in their general protections. Gender-pricing measures were introduced (but failed to pass) last year in Florida, Rhode Island, and West Virginia, according to Ann Soli, a public-affairs assistant with the National Conference of State Legislatures. Lawmakers in other states have said they will press the issue this year.

The move toward gender-neutral pricing may also offer an opportunity for owners who decide to use equal pricing as a marketing tool. Brian Grozbean, owner of four Lustre Dry Cleaners stores in Washington, D.C., took that approach years ago. "People were raising the issue, and we decided it would net us more money in the long run to charge women the same prices as men," he says. "I'm sure it did bring in business, or at least goodwill."




PHOTO: ©LINDA SUE SCOTT

**California salon owner** *Janet Borgens says the price of a haircut should be linked to the time it takes, not to the customer's gender. Here she works on a style for client Marjorie Jean.*

For small-business owners, this legislative activity suggests the need to examine long-standing practices in industries that have traditionally charged men and women different prices. Pricing differences based on higher costs for labor and materials are allowed under the California law, but business owners must be prepared to substantiate those costs and to prove they are applied without regard to the sex of the customer.

Several surveys have found that women are often charged more than men for essentially identical services. The California Assembly's Office of Research found that 40 percent of hair salons were charging women from $2.50 to $25 more for services similar to those provided to men. A 1992 survey by the New York City Department of Consumer Affairs found that two out of three haircutters charged women 25 percent more than they charged men for a basic shampoo, cut, and blow-dry.

That New York City survey also found the price for laundering a woman's shirt

*Free-lance writer Frances Cerra Whittelsey of Huntington Bay, N.Y., is co-author of* Women Pay More *(New Press).*

was typically $2 more than for a man's of the same material. In Boston, the Massachusetts attorney general's office found that half the dry cleaners interviewed charged women up to three times more than they charged men to launder a shirt.

Are such differences explainable and justifiable because of differences in costs, or are they simply discriminatory? Don Estes, who owns two hair salons and a cosmetology school in Visalia, Calif., says that although some salons have advertised women's haircuts at one price and men's at a lower price, he doesn't think salon owners base their prices purely on gender.

"With a man, you cut it, blow it out, and comb it straight back, and you're done in 10 minutes," he says. "With a woman, you cut it, blow it out with a round hairbrush, you use a curling iron, it takes an hour. If a woman wants a man's haircut, she should ask for it." In his salons, Estes says, prices are posted as "Haircuts—$20 to $40." The actual price depends on the time required.

California salon owner Borgens agrees that the price of a haircut should be related to the time needed; she says men have been getting an unwarranted bargain. "For many men, it's no longer just clip and go," she says. "They want style cuts, but we [in the industry] weren't charging them that way."

The debate over price differences in the dry-cleaning industry centers on whether women's blouses are often too small for the equipment used and consequently require more handwork than men's shirts do.

Lustre's Grozbean says that in laundering, "anything smaller than a men's size 14 or 14½ must be processed by hand." He also points out that "extra-large shirts—over 18½—don't fit the pressing machines either, but people are afraid to tell a big man to pay more."

Smaller-size shirts and blouses could be pressed by machines with special attachments, he adds, but he has not bothered to obtain them because "small sizes represent such a small percentage of the business, it's more feasible to do them by hand."

What annoys some women is that certain dry cleaners seem to pay closer attention to the gender of the customer than to the size of the shirts. Sara Nichols, a Washington, D.C., attorney, cites an example: "A woman in my office lent a shirt to a male friend, who had it dry-cleaned before he returned it to her. She noticed the price on it was much lower than she normally pays, and it was the same dry cleaner she always went to."

California Assembly member Jackie Speier, in a 1994 letter to Gov. Pete Wilson seeking his support for her gender-neutral-pricing measure, cited a common criticism of the proposal. Her critics, she wrote, were contending that women who wanted to avoid paying higher prices for services such as hair care should simply shop around.

She said: "We would not tell an African-American who was denied housing because of his color to keep looking until he finds a place that won't discriminate against him.

"Similarly, a woman should not have to shop around for equal rights under the law." NB



PHOTO: T. MICHAEL KEZA

**Unisex pricing** *was adopted at Brian Grozbean's Washington, D.C., dry-cleaning stores. "We decided it would net us more money in the long run," he says.*


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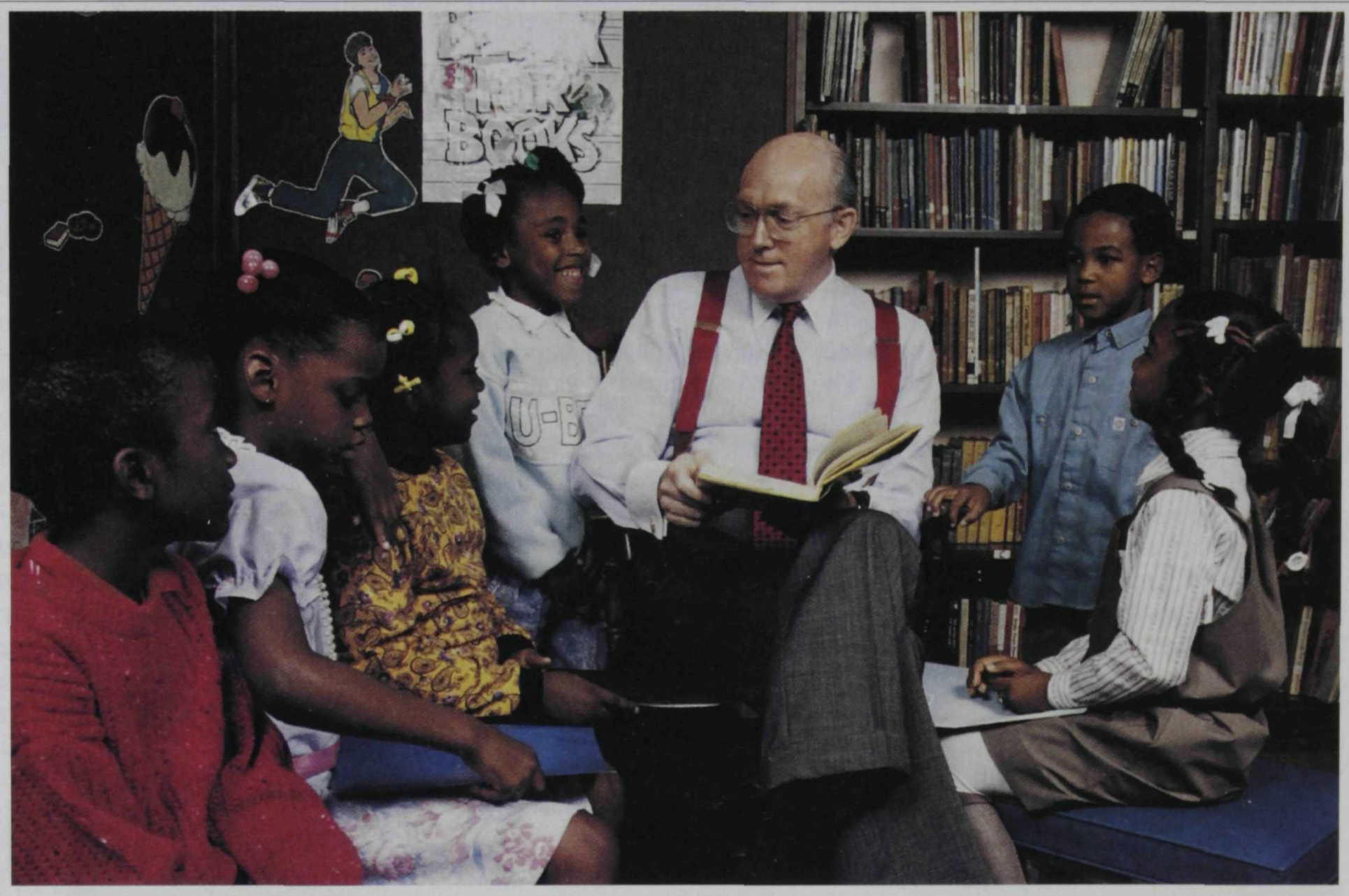
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LESSONS OF LEADERSHIP

# A Businessman On A Mission

*The U.S. Chamber's new chairman knows a thing or two about energy, and he is applying some of his own to the organization's grass-roots efforts.*

*By Albert G. Holzinger*



**Edwin Lupberger takes an active role** *in partnerships between his company, Entergy Corp., and schools in the middle South, such as Hansberry Elementary in New Orleans.*

Edwin Lupberger is chairman and president of Entergy Corp., one of the world's largest investor-owned electric utilities, with more than $22.5 billion in assets. But he hardly fits the bureaucratic image that many people associate with executives of big corporations.

Since assuming the top job at New Orleans-based Entergy in 1985, Lupberger has operated with an entrepreneur's calculated daring and thirst for expansion, and he has been an energetic and highly visible champion of investments in the people of the middle South, where Entergy has its roots.

This year, as chairman of the U.S. Chamber of Commerce, Lupberger is striving to transfer some of his considerable personal energy to the business federation's extensive grass-roots membership. His mission: to mobilize entrepreneurs across America in support of pro-business legislative initiatives on the federal level, notably budget-balancing and regulatory-reform efforts.

Lupberger acquired his common-sense business instincts and his concern for the disadvantaged while growing up in Atlanta as the son of a sole proprietor whose business was training barbers and beauticians. "My father had only a sixth-grade education, so it was a struggle for him to run a business," he says. Watching his father's travails gave him "an appreciation of how hard it is to run a small company and how many hours of the day it takes." It also made him determined, he says, to pursue a career in which he would be paid "for what I knew, rather than for what I did."

He was uncertain what that career would be, however, even after graduating in 1958 with a bachelor's degree from Davidson College, in Davidson, N.C., and following a two-year stint as a line officer in the Navy.

Lupberger's bent toward "the financial side of things" led him to entry-level jobs in mortgage banking and securities sales in Atlanta. Soon realizing that he needed another academic degree to, as he says, "separate myself from the herd," Lupberger enrolled at Emory University and earned a master's degree in business administration.

Upon graduation, Lupberger was offered the job of executive assistant to the vice president of finance of the Southern Co., a giant, Atlanta-based electric-power company. "I didn't even consider the fact that I would be going into electric utilities," he says. "I was just doing corporate finance where corporate finance was available. It could have been the cottonseed business or the widget business; it wouldn't have made any difference then."

But it did make a difference in 1979, when, after 13 years at Southern and after a little over a year as senior vice president of finance at Indianapolis Power and Light, Lupberger was offered what, in effect, was the job of chief financial officer at Entergy. The company was known then as Middle South Utilities Inc., and it supplied electricity to businesses and residences in Arkansas, Louisiana, and Mississippi.

Six years later, at 49, Lupberger was tapped to chair Middle South. It had annual revenues of $3.2 billion, net income of just over $400 million, 13,650 employees—and big, big financial problems.

Construction workers were just putting the finishing touches on Grand Gulf 1, a nuclear-power plant in Port Gibson, Miss. But they were six years behind schedule, and the construction delay had increased the plant's price tag to $3.8 billion, more than seven times the preconstruction estimate. Moreover, construction had been halted indefinitely on the one-third-complete Grand Gulf 2 nuclear plant, on which $925 million had been expended.

The Federal Energy Regulatory Commission, with jurisdiction over wholesale power rates and construction-cost-allocation issues, had ruled that Middle South could recover the cost of Grand Gulf 1 from its customers. But Arkansas, Louisiana, and Mississippi regulators, who can set retail electric rates, had dissented, forcing the federal courts to settle the conflict.

The company was nearly paralyzed for the three-year duration of the court fight, Lupberger notes, with spending precluded for all but essential business operations.

"I used to tell financial analysts that we were like a beach ball being held under the water: If the court decision was right, we would pop right back to the surface," Lupberger recalls. "Of course, I didn't like to even think that if the ruling went the wrong way, the air would come out of the ball, and we'd stay submerged."

But the June 1988 ruling by the U.S. Supreme Court did go the company's way, giving Middle South badly needed access to $215 million it had collected from customers and held in escrow pending resolution of the rate dispute.

Lupberger moved quickly to normalize relations with the state rate regulators. He also led the internal brainstorming effort that resulted in adoption of the Entergy name on May 19, 1989. "After all of the travail, we had built up a lot of baggage in the Middle South name, and we thought it would be good to chuck it and start anew," Lupberger says. And why the name Entergy? The aim, he says, was "to come up with a name with no real meaning, so that we could give it a positive meaning over time" in customers' minds.

But rebounding from the brink of insolvency, mending tattered relationships with local regulators, and improving Wall Street's and the public's perception of the company were only the beginning of Lupberger's challenges at Entergy.

It was clear to the embattled executive that a new age—the age of competition for customers—was dawning on the electric-power industry. A series of legislative and regulatory moves had commenced that, one day, likely will allow residential as well as commercial customers to choose freely among competing electricity providers, much as they now can choose among AT&T, MCI, Sprint, and a host of smaller companies as providers of their long-distance telephone service.

It was equally clear to Lupberger that the Entergy of the twilight of the 1980s would not fare well in a free-market environment of the 21st century. "We were like a quasi-governmental agency back then. We were bureaucratic to a greater extent than a normal company," he reflects.

**"The only valid response [to erosion in the standard of living] is to improve productivity through better education and training of workers."**

**—Edwin Lupberger, Chairman, U.S. Chamber Of Commerce**

"So, realizing that deregulation and a lot of other changes were coming to our industry, I felt we had to become more like a competitive business—more entrepreneurial and efficient, more reliant on our people to act independently and use their minds."

That realization was the catalyst for a series of dramatic structural, cultural, and business-diversification changes at Entergy over the next several years.

Lupberger reorganized the company into functional rather than geographic units, thereby eliminating redundancies and achieving economies of scale in several areas. Consolidations enabled Entergy to pare its work force during 1990-94 by about 11 percent, or approximately 1,500 employees. "That's the biggest negative I've had to deal with," Lupberger says. "It's been a real tough adjustment period for a work force that expected to be around for as long as they did their job well."

The reorganizing and downsizing coincided with the establishment of a formal total quality improvement (TQI) program, which Lupberger believes will provide "the cornerstone of our future in terms of customer satisfaction, financial strength, and employee morale."

Although Lupberger knew that improving existing operations and enhancing customer satisfaction were essential, he also knew those efforts could take Entergy only a limited distance on the road to success. "We're in a business that loves economies of scale," he says. "The bigger you are, the better you can do, provided you manage things right."

Lupberger has fed the company's appetite for growth in several ways, most dramatically by buying Gulf States Utilities

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of Beaumont, Texas, for $2.3 billion in cash and stock. The acquisition, finally approved by regulators at the end of 1993, resulted in an Entergy with about 2.4 million retail customers in four states. They are served by more than 115,000 miles of transmission and distribution lines fed by 88 fossil-fuel and five nuclear power-generating plants.

Even before the GSU purchase, Lupberger had created the Entergy Power Group to sell so-called nonregulated generating capacity and bulk power to buyers outside the company's regulated system, as permitted by Congress in its ongoing efforts to deregulate the electric industry.

The most far-reaching expansion moves were not only outside Entergy's regulated system but also outside the United States. Today, Entergy has made or is exploring investments in projects for producing and distributing power in countries ranging from Argentina, Brazil, Chile, Colombia, Peru, and Venezuela in South America to China, Indonesia, and Pakistan in Asia. Recently, Entergy acquired CitiPower Ltd. of Melbourne, Australia.



PHOTO: T. MICHAEL KEZA

**As U.S. Chamber chairman,** *Edwin Lupberger, right, discusses business's legislative priorities for 1996 with Rep. Jack Fields, R-Texas.*

On one hand, Lupberger says, "Our business is global; you have to go where the business is." On the other, he admits, "It blows my mind, frankly, when I get up in the morning and think about investing in these far-flung places when just 10 years ago we were worried about servicing Jackson, Miss."

Business diversification was achieved by acquiring a company that would become Entergy Systems and Service to design, install, and maintain energy-saving lighting systems. It has more than two dozen offices nationwide.

"I really don't like to think of us as diversifying as much as making as much as we can out of the equipment and expertise we have," Lupberger says. "Change breeds opportunity, and as changes continue to occur in our industry, we are trying to take advantage of every 'soft spot.' "

The term "soft spot" also applies to the place Lupberger reserves within himself for the disadvantaged of the mid-South. For example, shortly after becoming chairman of the company, Lupberger learned that some minority-group members in the community were unhappy that Entergy's work force was overwhelmingly white and male. He responded by implementing the first so-called Fair Share agreement between an electric utility holding company and the National Association for the Advancement of Colored People (NAACP).

The agreement established aggressive minority hiring, advancement, corporate-philanthropy, and purchasing goals for Entergy. "When we have an opening now," Lupberger says, "I say, 'Prove to me that there's not a minority or female qualified for this position.' "

Lupberger has become so involved with advancing minority interests that in 1993 he was tapped to serve as the NAACP's national fund-raising chairman.

But even his equal-opportunity activities pale in comparison with Lupberger's ongoing education-related work within Entergy and the community at large. For example, Entergy has purchased state-of-the-art computer equipment and instructional materials for several adult-literacy centers operated in the company's four-state service area by public-sector partners. At the centers—some of them mobile ones based in vans—adults receive 100 hours of instruction in reading and basic workplace skills.

To help prevent adult illiteracy, Entergy makes matching grants to schools pursuing projects to reduce dropout rates and has entered into several business-school partnerships in which Entergy provides educational resources, volunteers, and financial support. "We got involved with education because we serve a region that is terribly undereducated," Lupberger says. "Illiteracy still is a very significant problem in the rural South, and even in some urban areas."

At first, the decision to expend corporate resources in the public-education effort was controversial, he notes: "There was some real debate internally about whether this was money down a rat hole, but I felt that if our area was to grow and prosper so we would have citizens who could afford our bills, education simply had to be upgraded. We are tilling soil and planting seeds for future company growth."

Internally, Lupberger has overseen creation of extensive education programs to support professional growth among employees. The centerpiece of the effort is a $7 million employee-training facility in Jackson, Miss., called the "Power House." Opened last year, it has classrooms, an auditorium, a computer center, and a library.

As chairman of the U.S. Chamber, Lupberger says he is "placing great stress" on encouraging the business community to be active in nationwide efforts to reform the U.S. education system and to prepare future generations of American workers for the challenges presented by global competition and rapid changes in technology.

"We read much in the media these days about the declining purchasing power of workers' wages," Lupberger says, "and the Clinton administration is trying to use this coverage as a lever to promote the influence of labor unions." He says he and the Chamber will be active in rebutting this initiative.

"The only valid response [to eroding living standards] is to improve productivity through better education and training of workers," Lupberger says. As Chamber chairman, Lupberger also is working to mobilize the organization's members in support of congressional efforts to balance the federal budget. "The continuing struggle for a balanced budget is the pivotal issue of our time," he says. "If you want low interest rates and more economic growth, a balanced federal budget is the key."

He also is working with the Chamber's staff in Washington, D.C., to support regulatory-reform efforts on Capitol Hill. "I think the country is in a state of regulatory emergency," says Lupberger. "We're in a global economy up to our necks—if not our eyeballs—so we can't continue to be this overly regulated and still be competitive."

In all, Lupberger exudes enthusiasm about his Chamber work during 1996: "Politics is an avocation with me, so I'm very, very comfortable and really excited." NB

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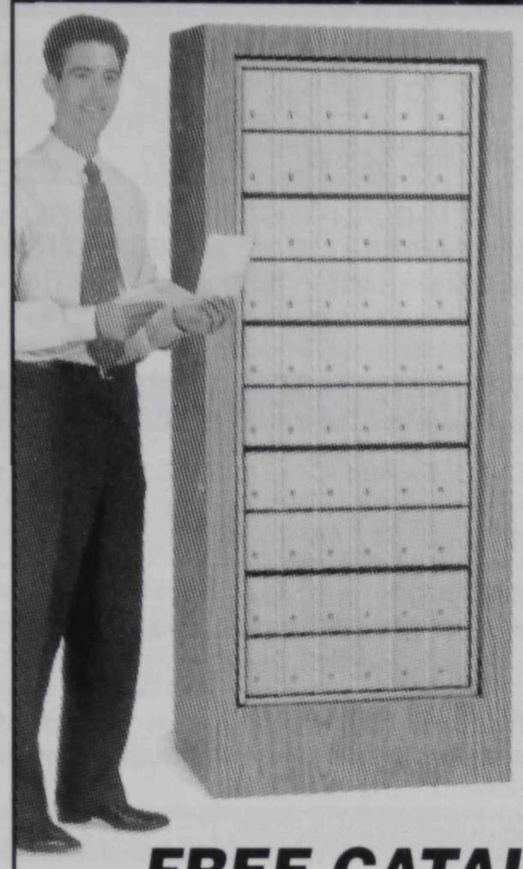
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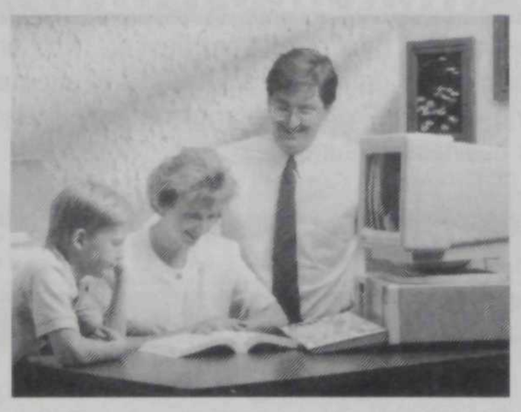
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# Small Business Financial Adviser

*Wall Street rattles investors; a primer on selecting a 401(k) plan.*

## Market Bulls Battle A Case Of Nerves

*By Randy Myers*

For the first time in over a year, investors have a tangible reason to be nervous about the financial markets. Major stock indexes finally stalled midway through the first quarter, after advancing virtually without pause for 15 months. And the bond market simply tanked during the quarter, as the Federal Reserve Board did not lower short-term interest rates, which many analysts had thought it would do early this year to keep the economy rolling. (Bond prices go up when interest rates decline.)

Still, the fundamentals that drove stock and bond prices higher in 1995—moderate economic growth and low inflation—remain in place. Until those factors change, it's probably premature to shift significant amounts of money out of stocks and bonds and into safe havens. Such havens include money-market accounts or precious metals, which can protect your principal when the financial markets tumble or inflation flares out of control.

### Gains Came Early

Although the average U.S. stock mutual fund rose a healthy 5.65 percent in the first quarter of 1996, according to Lipper Analytical Services, a fund-tracking service based in Summit, N.J., all of that gain came before Feb. 22.

Since then, the stock market has bounced around crazily, with a hair-raising loss of 171 points by the Dow Jones industrial average on March 8. For all that, the Dow finished the first quarter at near-record levels.

Action was much more consistent—consistently bad—in the bond market, as the average domestic bond fund tracked by Lipper fell 0.90 percent for the quarter.

Some of the money that investors drew out of the stock and bond markets found its way into gold-related issues. Lipper reports that mutual funds that invest principally in gold stocks rose an average of 22.76 percent in the first quarter, making them one of only three fund categories to post a double-digit gain for the period. The other two categories were natural-resources funds and Latin American funds.

At the other end of the spectrum, only one of Lipper's stock-fund categories—utility funds—fell during the quarter, with a loss of 0.19 percent. Utility stocks are interest-rate sensitive and often move with bonds.

### Disagreement On Gold

While many money managers expect the gold market to settle down, some, such as James Turk, strategic adviser of the Midas Fund, are looking for further gains.

The Midas Fund invests primarily in gold-related stocks and ranked eighth in performance among mutual funds of any type during the first quarter, with a gain of 35.76 percent.

"We believe that for the near term, we've gone into a $395 to $415 [per ounce] trading range for gold, replacing last year's $375 to $395 trading range," Turk says. (The

### Performance Of Mutual Funds, By Category

*With Dividends Reinvested Through March 31*

| Type Of Fund | 1st Quarter | One Year | Five Years |
|---|---|---|---|
| | (Figures Are Percentages) | | |
| Capital-appreciation funds | 5.74 | 28.68 | 99.42 |
| Growth funds | 5.37 | 28.31 | 90.12 |
| Midsized-company funds | 6.04 | 30.15 | 111.42 |
| Small-company growth funds | 6.41 | 31.25 | 119.47 |
| Growth and income funds | 5.67 | 27.73 | 88.40 |
| S&P 500 Index objective funds | 5.24 | 31.44 | 93.67 |
| Equity income funds | 4.53 | 26.41 | 89.55 |
| General Stock Funds Average | 5.65 | 28.76 | 95.23 |
| Health/biotechnology funds | 8.25 | 44.04 | 101.45 |
| Natural-resources funds | 11.82 | 24.96 | 60.25 |
| Environmental funds | 3.26 | 22.01 | 6.06 |
| Science and technology funds | 0.56 | 29.22 | 166.07 |
| Specialty/miscellaneous funds | 6.87 | 26.16 | 121.18 |
| Utility funds | -0.19 | 21.60 | 68.22 |
| Financial-services funds | 4.99 | 37.33 | 201.03 |
| Real-estate funds | 2.69 | 20.37 | 56.42 |
| Gold-oriented funds | 22.76 | 29.69 | 76.11 |
| Global funds | 5.66 | 21.85 | 72.10 |
| Global small-company funds | 7.15 | 26.27 | 75.70 |
| International funds | 4.38 | 16.08 | 58.46 |
| International small-company funds | 7.21 | 18.41 | 31.13 |
| European-region funds | 7.06 | 21.80 | 64.57 |
| Pacific funds, excluding Japan | 7.44 | 14.16 | 83.52 |
| Pacific-region funds | 5.12 | 12.56 | 59.33 |
| Emerging-markets funds | 8.51 | 16.17 | 75.64 |
| Japanese funds | 1.21 | 7.95 | 0.92 |
| Latin American funds | 10.83 | 27.72 | NA |
| Canadian funds | 9.27 | 22.92 | 35.95 |
| World Stock Funds Average | 6.65 | 18.57 | 64.34 |
| All Stock Funds Average | 5.74 | 25.96 | 90.76 |
| Flexible portfolio funds | 3.10 | 21.20 | 74.76 |
| Global flexible portfolio funds | 3.11 | 17.48 | 62.40 |
| Balanced funds | 2.57 | 21.07 | 71.49 |
| Balanced-target maturity funds | 0.51 | 16.75 | 63.44 |
| Convertible-securities funds | 4.71 | 20.52 | 89.61 |
| Income funds | 1.92 | 18.46 | 70.36 |
| World income (bond) funds | 0.16 | 13.52 | 38.74 |
| Fixed income (bond) funds | -0.90 | 9.47 | 61.32 |
| Average Of Taxable Stock And Bond Funds | 3.37 | 20.21 | 76.41 |

SOURCE: LIPPER ANALYTICAL SERVICES INC.

CHARTS AND ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

metal finished the first quarter just under $396.) "Later, maybe in the second half of the year, we're going to see gold move higher into the $400s, above $415 to $425." But even Turk isn't suggesting that investors swap all their funds for gold or gold stocks. "I always recommend diversification in an investment portfolio," he says.

### A Shaky Analysis?

The key catalyst for the behavior of the financial markets in the first quarter was the Fed's decision not to cut short-term interest rates, reflecting Chairman Alan Greenspan's sense that the economy was healthy enough to continue growing without allowing businesses or consumers to borrow money at lower rates.

Ironically, that analysis began to look shaky midway through the quarter, when several big technology companies, led by Digital Equipment Corp., began to warn Wall Street that their earnings for the first quarter wouldn't be up to expectations because of the slowing demand for personal computers. Still, the tremors such forecasts inflicted on the broad stock market may have been overblown.

"There's not a lot of history of economies dying out on their own," observes Richard Hoey, chief economist at Dreyfus Corp. and manager of three of the company's mutual funds, including Dreyfus Growth & Income. "Usually, what triggers recessions is a surge in inflation that is resisted by a tightening" of the money supply by the Federal Reserve, he says. "We don't yet have a surge of inflation, and we don't yet have the Fed tightening."

Hoey sees the economy continuing to expand through the remainder of the year, with subcycles of faster and slower growth. "We've just ended a subcycle of slower growth; now we're going to see a faster pace for a couple of quarters," he says.

"Despite that, it's going to be tough to get much in the way of gains in corporate profits," Hoey adds. "Product pricing isn't that strong, we no longer have falling interest rates to help reduce interest costs, and we've got a little bit of cost pressure from the rise in oil prices early in the year. That will feed through the system for a while."

### Large Firms Suffer Most

When corporations have trouble increasing prices for their goods or services, it is often the largest companies operating in the most mature industries that suffer the greatest. That's because they are heavily dependent upon pricing improvements to grow their profits.

By contrast, smaller companies that don't already have huge market shares can often continue to increase their profits by expanding unit sales. Accordingly, many investors sense that small-company stocks may prove more attractive through the remainder of this year than their larger counterparts will be.

Large-company stocks could be rescued, though, if overseas economies take off and spur demand for U.S. goods produced and marketed by multinational U.S. companies.

For investors, it can all add up to a confusing picture. Tim Medley, president of Medley & Co., a small money-management firm in Jackson, Miss., says investors shouldn't be too quick to stray from their investment course, particularly if they're investing for the long term.

"The U.S. stock market is trading at 15 or 16 times earnings," Medley says. "That's not a wild number from a historical standpoint and probably leaves room for a fund manager who wants to own 35 stocks out of the 7,000 or so out there to find them at reasonable prices.

"Even if Alan Greenspan raises interest rates today, factories will run, business will go on," Medley says. "The really good businesses should do well in a variety of economic conditions. You can miss a lot of opportunities by being too concerned about the big picture." ■

*Randy Myers is a financial writer in Dover, Pa.*

## Stock Performance In The First Quarter

| Industry Group | Change In Value Dec. 31 To March 31 (Figures Are Percentages) |
|---|---|
| Metals—rare | 23.0 |
| Retail—apparel | 22.9 |
| Airlines | 15.6 |
| Retail—department stores | 15.5 |
| Metals fabrication | 15.0 |
| Chemicals | 12.7 |
| Shoes, leather | 12.7 |
| Hotels, motels, restaurants | 12.4 |
| Credit | 11.9 |
| Food—confections | 11.1 |
| Oil, natural-gas services | 10.6 |
| Rubber, plastic | 10.1 |
| Machinery—heavy | 10.0 |
| Retail—food stores | 9.2 |
| Metals—nonferrous, coal | 9.2 |
| Dow Jones Industrial Average | 9.2 |
| Personal services | 9.2 |
| Recreation—movies, sports | 9.2 |
| Real estate | 9.0 |
| Automotive | 9.0 |
| Retail—discount, drugs | 8.8 |
| Banking | 8.7 |
| Multi-industry | 8.6 |
| Recreation—luxury | 8.3 |
| Aerospace | 8.2 |
| Investments | 8.1 |
| Retail—miscellaneous | 7.8 |
| Textiles—apparel | 7.7 |
| Oil, natural-gas production | 7.1 |
| Business data processing | 6.7 |
| Business services | 6.6 |
| Electrical equipment | 6.5 |
| Machinery—light equipment | 6.1 |
| S&P Industrial Index | 5.8 |

| Industry Group | Change In Value Dec. 31 To March 31 (Figures Are Percentages) |
|---|---|
| Health | 5.5 |
| NYSE Index | 5.3 |
| Freight, shipping | 5.2 |
| Media General Stock Index | 5.1 |
| Railroads | 5.1 |
| Publishing | 5.0 |
| Building—heavy | 4.9 |
| S&P 500 Index | 4.8 |
| Nasdaq Index | 4.7 |
| Textile manufacturing | 4.6 |
| AMEX Index | 4.2 |
| Cosmetics—personal | 4.0 |
| Oil, refining, marketing | 3.9 |
| Real-estate investing | 3.5 |
| Housewares, furnishings | 3.5 |
| Paper, packaging | 3.5 |
| Building | 3.3 |
| Drug manufacturers | 3.1 |
| Food—packaged goods | 2.4 |
| Utilities—gas, other | 2.3 |
| Recreation—broadcasting | 2.0 |
| Food production | 2.0 |
| Metals—iron, steel | 1.8 |
| Savings and loans | 1.3 |
| Insurance | 1.2 |
| Precision instruments | 0.8 |
| Distillers—brewers | -0.5 |
| Communications | -1.2 |
| Business equipment | -1.9 |
| Electronics | -2.4 |
| Tobacco | -3.0 |
| Utilities—electric | -3.2 |
| Food—meats, dairy | -4.0 |

SOURCE: MEDIA GENERAL FINANCIAL SERVICES

INVESTING

# Check The Fine Print In Picking A 401(k) Plan

*By Randy Myers*

It all looked so easy at the beginning. One vendor would manage the money invested in the 401(k) plan at Continental Industries Group Inc., and another would oversee the plan's administration. All that would be left to be done by the firm's controller, Rhoda Cuthill, would be a bit of minor paperwork as she and her 12 fellow employees began to amass their retirement nest eggs.

Alas, instituting a 401(k) plan for Continental, a New York City-based international trader of industrial chemicals, has proved anything but easy for Cuthill.

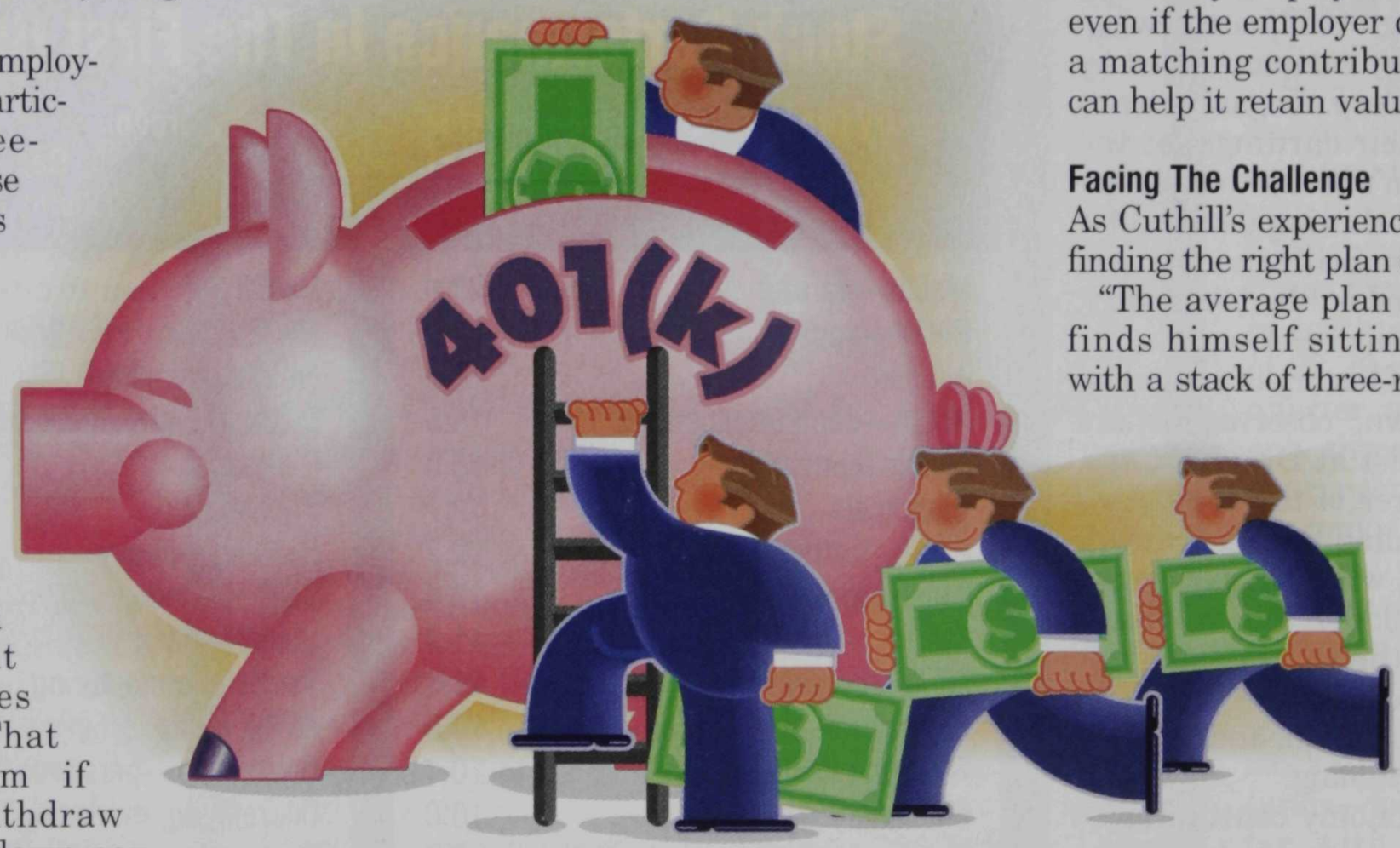
Several younger employees don't want to participate in the three-year-old plan because it levies a sales charge of 5 percent on any assets withdrawn within five years of the contribution. (Assets withdrawn between five and 10 years after a contribution are subject to a sales charge that gradually declines from 5 percent.) That would hurt them if they wanted to withdraw money for, say, a down payment on a house.

With modest participation by lower-earning workers, Continental discovered in 1995 that for the previous year its plan was top-heavy (skewed in favor of higher-wage employees, which is against Internal Revenue Service regulations).

To correct the imbalance, Continental's owners were obliged to make additional contributions to the plan on behalf of all employees, even those who weren't participating, prior to filing the plan's Form 5500 with the IRS for 1994.

Now the owners aren't making contributions to their own accounts in the plan, fearful that it could become top-heavy again. Cuthill, meanwhile, is doing calculations on her own throughout the year to monitor the plan's status, something she thought—before the top-heavy mix-up—that she could rely on the plan administrator to do.

"Unless you're really a 401(k) expert and know exactly where to look for the information, putting in one of these plans is not an easy process," Cuthill concludes.




## Sorting It All Out

Fortunately, there is help. Many vendors, from mutual-fund and insurance companies to brokerage firms, now offer turnkey 401(k) services that include plan design and documentation, record keeping and administration, investment management, and employee communication and education.

For a company with only a handful of employees, these plans often cost the employer as little as $1,000 to set up and $2,500 a year to maintain. Even as companies grow, costs are seldom prohibitive.

Pension Dynamics Corp., a pension-administration firm in Lafayette, Calif., recently compared the annual costs of operating 12 different 401(k) plans from 11 different vendors. Each plan had a hypothetical $1 million in assets and 50 participating employees; the average cost was found to be $18,912.

The benefits of such plans can be significant. Employees, including the company's owners, can contribute up to $9,500 of their pre-tax salary to a 401(k) plan (to a maximum 20 percent of their gross salary, including any matching contributions made by their employer), then watch their earnings compound with taxes deferred until withdrawal.

An employee who salts away $5,000 a year in a 401(k) account earning 10 percent a year would have $606,160 after 30 years, even after paying taxes upon withdrawal at a 33 percent rate. In comparison, an employee who made an identical contribution to a taxable account earning 10 percent would end up with $319,960—or about $286,000 less—at the end of 30 years.

What's more, employers can make matching contributions to their employees' 401(k) accounts if they like, a feature that many employees find attractive. But even if the employer chooses not to make a matching contribution, a 401(k) plan can help it retain valued workers.

## Facing The Challenge

As Cuthill's experience indicates, though, finding the right plan can be a challenge.

"The average plan sponsor [employer] finds himself sitting down at a table with a stack of three-ring binders describing all these different offers," says Stephen J. Butler, president of Pension Dynamics and author of *The Decision-Maker's Guide to 401(k) Plans.* "While these offers are clear about what costs to the plan sponsor are going to be, they're not clear about what the cost to participants is going to be."

In some plans, virtually all charges are billed to the plan sponsor. In many others, individual plan participants bear some of the plan's costs. Those costs may be in the form of charges for loans or withdrawals from their account, sales fees (loads) levied on mutual funds offered through the plans, or investment-management fees.

"Where this is a big problem in the small-company environment is where the business owners and key managers may have in their accounts half the assets in the plan," says Butler. "If they've chosen a plan with high internal [participant] fees,

**This is the second part of a three-part series on 401(k) plans.**

**In June, the subject will be 401(k) investment education for employees.**

they've just relegated themselves to a plan that they're effectively paying for out of their own accounts, with money that otherwise would have been compounding tax-free. It's the worst possible resource for paying fees."

### Where Can You Turn?

To find the right plan for your company, you could turn to a third-party administrator such as Pension Dynamics; there are thousands of such firms throughout the country. Butler typically charges $500 to do a cost-comparison survey tailored to a company's size and the overall investment style of its employees.

Some companies consult certified public accountants or financial advisers before selecting a plan, but the quality of the advice you receive may vary greatly, as it may with a pension consultant.

Continental Industries used an adviser to help it select its plan, for example, and still wound up dissatisfied, although Cuthill doesn't blame the consultant for the subsequent problems.

In the end, there's no substitute for becoming an educated consumer. When shopping for a 401(k) plan, here's what you should do:

■ Compare costs, including those borne by the employer and those borne by the plan's participants. If you think your company can't afford to implement a plan, remember that most vendors will allow you to shift virtually all of the expense onto the employees. While this may not be ideal, the tax advantages of a 401(k) are so compelling that even a plan with that type of arrangement would be better than no plan at all.

■ Review each plan's past investment performance. Although it's no guarantee of future results, this is the only practical way to forecast how the plan will perform. Since all plans offer various investment options—typically a half-dozen or so mutual funds, each investing in a different type of asset—you'll have to compare each of those with similar funds available elsewhere. If a plan is a performance dog, it may not be a bargain at any price.

One gimmick to watch out for: a money-market option that pays a below-market rate of return.

■ Review the number of investment options offered by each plan. Employees generally prefer more options rather than fewer, although a plan with dozens of choices may prove overwhelming. Also, find out if the plan includes investment options other than the vendor's own; some employees might appreciate the chance to include their favorite fund in their 401(k) account.

■ Determine if the mutual funds or other investment options offered through the plan carry sales fees. A mutual fund with a 5 percent front-end load (a sales fee deducted from the initial investment) would have to earn 9.11 percent a year for five years just to match the results of a no-load fund earning only 8 percent a year over the same period.

Even if a fund is touted as no-load, be wary of hidden costs. Some no-load funds have expense ratios (operating expenses, including investment-management fees, expressed as a percentage of the fund's assets) that are twice the roughly 1.1 percent average for domestic-stock funds.

If you choose a plan with load-bearing funds or with no-load funds that have high expense ratios, be sure their performance justifies this higher cost.

■ Try to ascertain each vendor's reputation for designing and administering plans that comply with tax laws, and determine the extent to which the vendors take responsibility for ensuring that their plans are in compliance.

"Look at their service contract," Butler advises. "If it is laced with language that holds them harmless in any way, you should be immediately suspicious. Also ask if they have errors-and-omissions insurance to pay for mistakes."

Butler recalls a plan in which the bank administering it made mistakes that led to $60,000 in penalties for the plan's sponsor. The bank offered only to split the payment of the penalties.

Another plan vendor specifies in its contract that if it is found liable for a mistake, it will not reimburse the plan sponsor any more than the sponsor has paid to it in administration fees.

■ Finally, compare the bells and whistles in each plan. All can be structured to permit employees to make withdrawals from their account, for example, but fees for doing so can vary.

Some plans offer daily valuations, so that participants can always know the current value of their account, and most that offer daily valuations also allow participants to transfer assets among the various investment options on a daily basis. By contrast, some plans provide only quarterly valuations and allow participants to change their investment allocations only quarterly.

And don't forget to ask your business colleagues to recommend 401(k) vendors or third-party administrators that have won their confidence. Most plan vendors will unbundle their services if requested, allowing you, for example, to use them to manage your plan's assets and a third-party administrator to handle the paperwork.

Choose wisely, and your 401(k) plan will prove to be one of the best additions you'll ever make to your employee benefits package. NB



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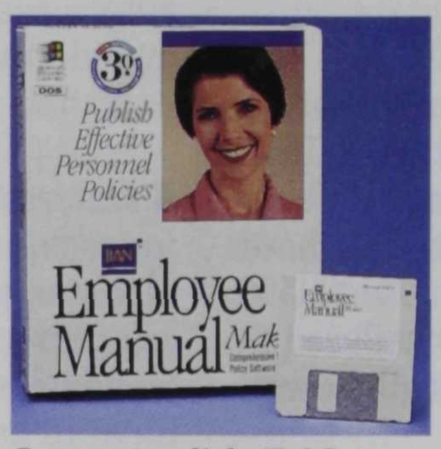
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## FINANCING SOURCES DATABANK



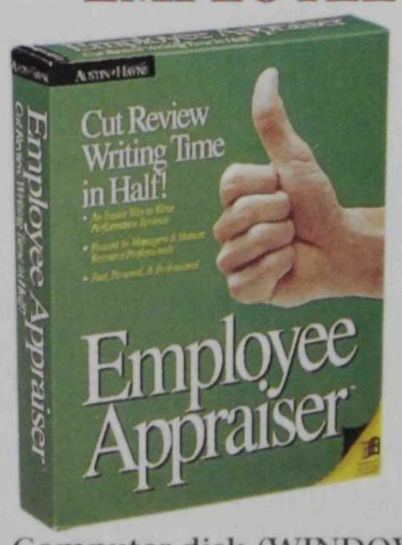

Computer disk (DOS 5-1/4, 3-1/2) for 3.3 or later, 6.5 MB, 640K RAM
**$139.00**
plus $12 s/h

Take the guesswork (and the agony) out of borrowing by matching your needs with firms who *want* to lend you money or invest in your company. Simply type in your industry, location, and the amount and type of capital required, and within five minutes you'll have a list of venture capital firms, small business investment companies, commercial banks, equipment lessors, factoring firms, and asset-based lenders who are looking for companies just like yours! Don't ever be put off by a local bank again.

NEW!

### Better employee evaluations... delivered in half the time.

## EMPLOYEE APPRAISER

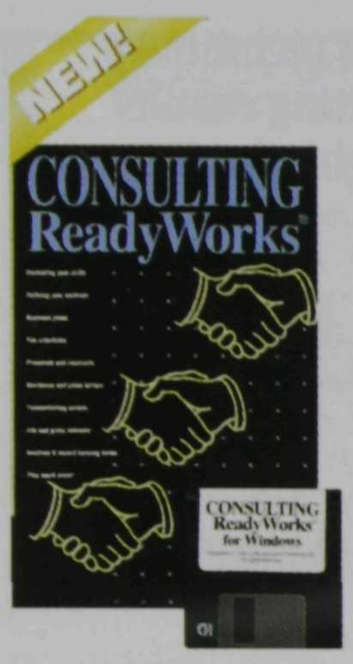



Computer disk (WINDOWS 3-1/2) with over 400 writing samples. Regularly priced $129.00
Your Price:
**$99.95** plus $6 s/h

Avoid common performance appraisal mistakes that can get you into legal difficulty... and ruffle employee feathers. Developed by labor law experts, this computer-based program checks your documents for inappropriate language and not only offers advice on how to correct it, but gives you access to hundreds of professionally written phrases and paragraphs that can be personalized for your needs. You and your supervisors will cut review writing time in half!

# Nation's Business

## COMPUTER LETTERS, FORMS, DOCUMENTS, AGREEMENTS



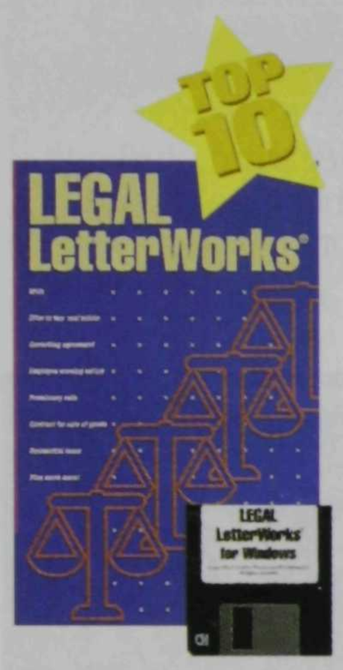

### Expert advice and forms for starting and running a consulting business.

## CONSULTING READYWORKS

Start generating income from the moment you start your business. 150 forms that help you calculate fees, send winning proposals, write your own brochures and sales letters, create contracts, and more. This program also explains what to do about slow-paying clients, how to dramatically increase business from existing clients, and how to get free publicity.

Computer disk (DOS 5-1/4, 3-1/2, WINDOWS 3-1/2, MAC) and 300-page book (150 documents)

**$119.95** plus $6 s/h



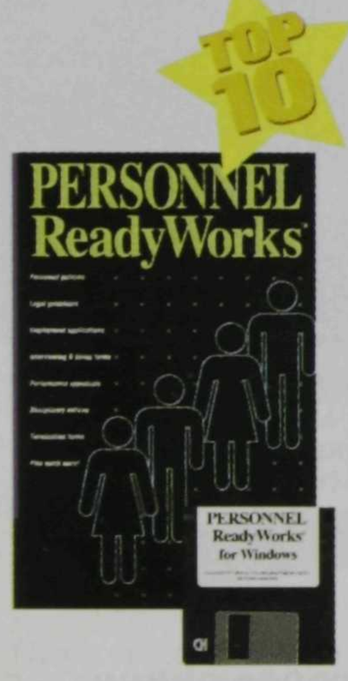

### 165 legal forms and agreements

## LEGAL LETTERWORKS

Count the times you've needed a legal form: partnership or corporation papers, brokerage agreement, real-estate lease, contract for sale of goods, a will. Now you can save money on legal fees and avoid time-consuming deal-killing delays. Just call up the form you want, fill in the blanks as directed, and print a completed form.

Computer disk (DOS 5-1/4, 3-1/2, WINDOWS 3-1/2, MAC) and 452-page book (165 legal forms)

**$79.95** plus $6 s/h



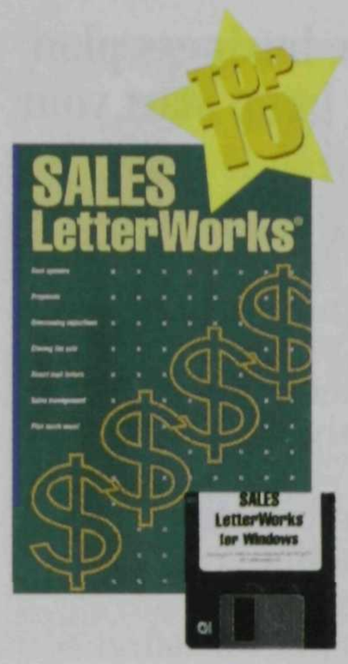

### 160 forms and documents for every phase of personnel management.

## PERSONNEL READYWORKS

Effectively handle many of the most sensitive areas of management: hiring and discipline, health and safety, government regulations, and more. Avoid costly problems and possible lawsuits with customizable forms that cover company policy, benefits, record-keeping, performance appraisals, terminations, confidentiality, and illness.

Computer disk (DOS 5-1/4, 3-1/2, WINDOWS 3-1/2, MAC) and 370-page book (160 forms)

**$119.95** plus $6 s/h



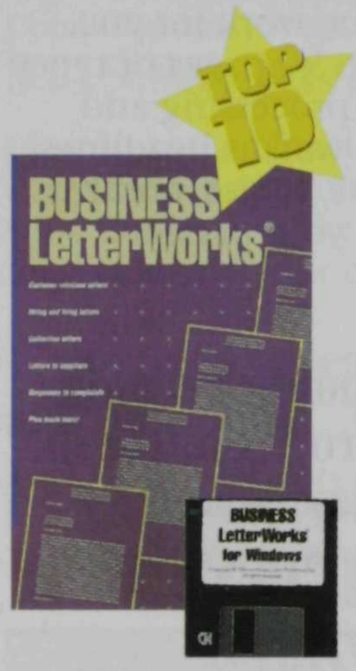

### 308 expert letters that generate sales and profits.

## SALES LETTERWORKS

No matter what your business is or whom you're trying to convince, you'll find the *perfect* letter for virtually every selling situation. Call up customizable letters that cover every aspect of selling: creating repeat business, opening doors, dealing with customers, responding to objections, collecting money.

Computer disk (DOS 5-1/4, 3-1/2, WINDOWS 3-1/2, MAC) and 372-page book (308 letters)

**$79.95** plus $6 s/h




### 400 professionally written letters for all areas of your business.

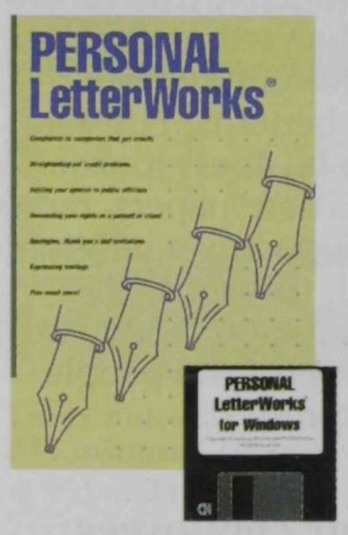
## BUSINESS LETTERWORKS*

If you've ever had to apologize for an employee's rudeness, make an inquiry to a venture capital firm, collect an unpaid debt, or any number of everyday situations, then this software will simplify your life. Call up letters covering advertising, suppliers, internal communications...every possible business situation.

Computer disk (DOS 5-1/4, 3-1/2, WINDOWS 3-1/2, MAC) and 470-page book (400 letters)

**$79.95** plus $6 s/h

*Formerly LetterWorks*




### 400 customizable letters for your business and personal life.

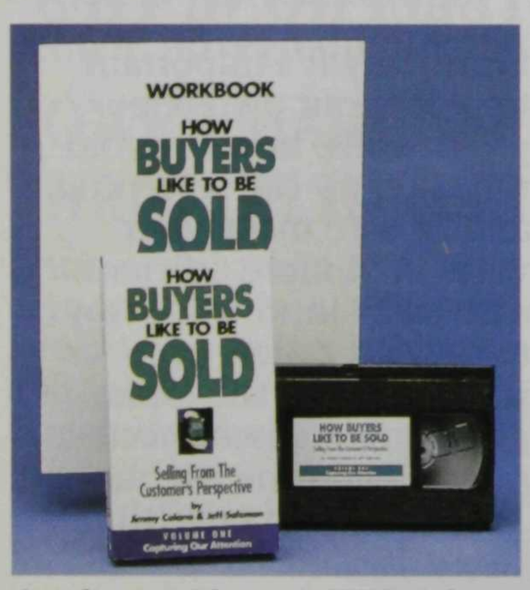
## PERSONAL LETTERWORKS

Be prepared for every imaginable situation, ranging from touchy, feelings-oriented issues to hard-nosed "this-is-the-way-it's-going-to-be" challenges. Never struggle again with a sympathy note to a colleague or friend, or a hard-to-resolve dispute with an uncaring banker or vendor, or how to say "Thank you," or "I appreciate you."

Computer disk (DOS 5-1/4, 3-1/2, WINDOWS 3-1/2, MAC) and 470-page book (400 letters)

**$79.95** plus $6 s/h

## SELLING SKILLS ON VIDEO



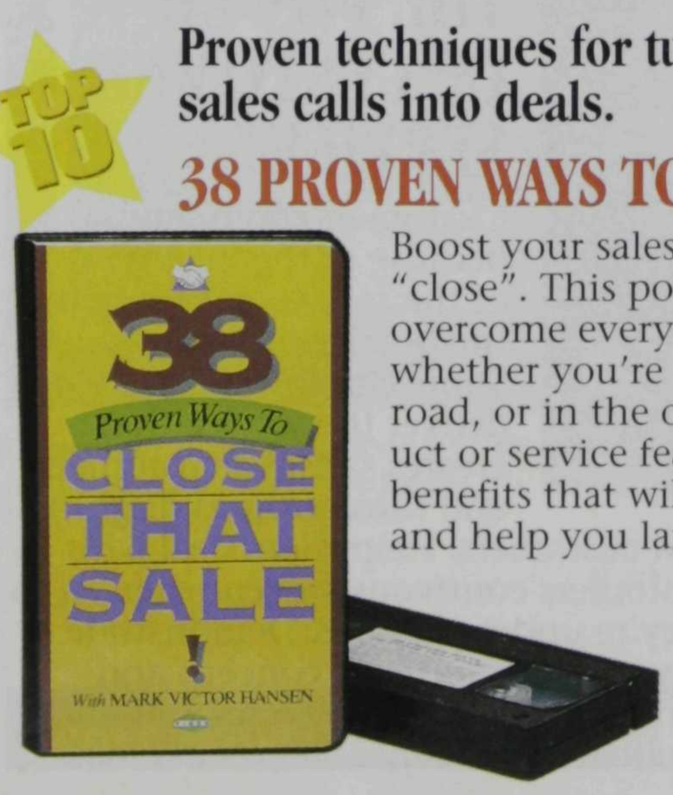

4-volume video set. VHS only. Running time 3 hours, 58 minutes. Includes 32-page workbook.

**$199.95** plus $6 s/h

### See things from the customer's point of view and increase sales.

## HOW BUYERS LIKE TO BE SOLD

A remarkable video course that helps you get inside your customers' heads! Learn exactly what they're thinking, and how you can create sales techniques and strategies they won't be able to resist. Discover what gets a buyer's attention, what turns him off, what makes her say YES! These powerful tapes will boost your sales.




### Proven techniques for turning sales calls into deals.

## 38 PROVEN WAYS TO CLOSE THAT SALE!

Boost your sales by mastering the art of the "close". This powerful video will help you overcome every potential buyer objection whether you're on the retail floor, the road, or in the office. Translate your product or service features into "must-have" benefits that will excite your customers... and help you land the big ones.

1-volume video. VHS only. Running time 87 minutes.

**$79.95** plus $6 s/h

# BUSINESS PLANNING, CUSTOMER SERVICE, MANAGEMENT



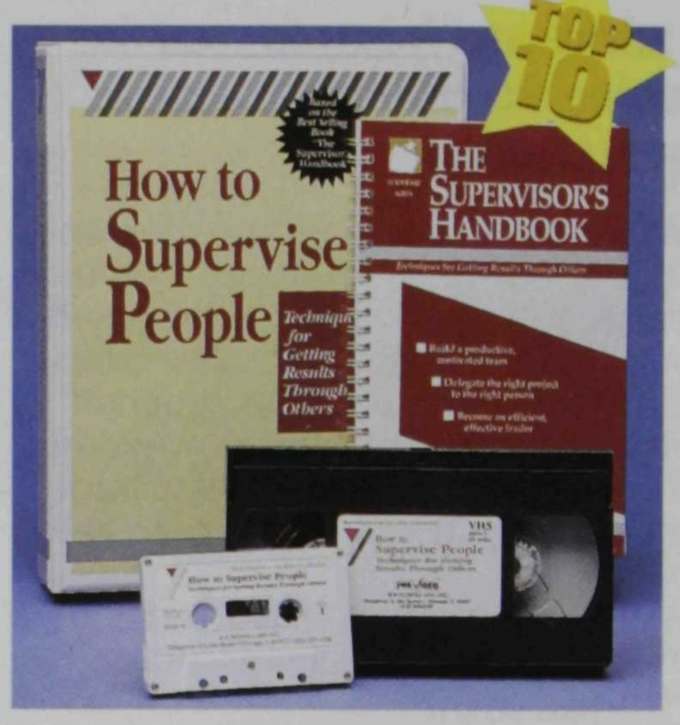

## Write the business plan that will jump start your company!

## BIZPLAN *BUILDER*

Your business plan may be the most important factor in convincing investors to give you the financing that will help you launch a new venture, product, or service. This bestselling computer-based product not only helps you get started, it practically does all the work for you. It includes more than 90 pages of typed and formatted word processing and spreadsheet files...as well as headlines, sentences, paragraphs, tables, and lists to help you produce your perfect business plan.

**Computer disk (DOS 5-1/4, 3-1/2, WINDOWS 3-1/2, MAC) and 126-page reference book**
**Regularly priced: $129.00**

Your Price:
**$99.00** plus $6 s/h



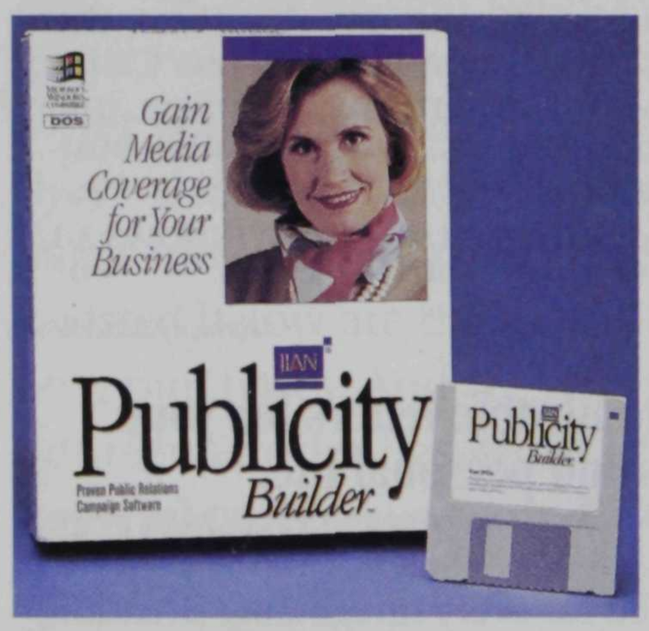

## Proven techniques for getting results through others.

## HOW TO SUPERVISE PEOPLE

Leadership is the ultimate challenge for any supervisor... and often the key to an effective organization. Leadership requires skill, toughness, and sensitivity...and this acclaimed video shows you how to attain all three. You'll see how to use team building, delegation, and conflict resolution to become an outstanding supervisor.

**Video. VHS only.**
**Running time 42 minutes.**
**Includes companion audiocassette and Supervisor's Handbook.**

**$99.95** plus $6 s/h




## Create public relations like a pro...without the cost of an agency!

## PUBLICITY *BUILDER*

If you've always wondered how some companies are always reaping the benefits of free publicity, this valuable product will make it possible for you to obtain the same benefits. Put your company's story into business journals, consumer magazines, newspapers, radio and television. Developed by a public relations professional, this software helps you get your name—quickly and inexpensively—in front of the people you want most to impress.

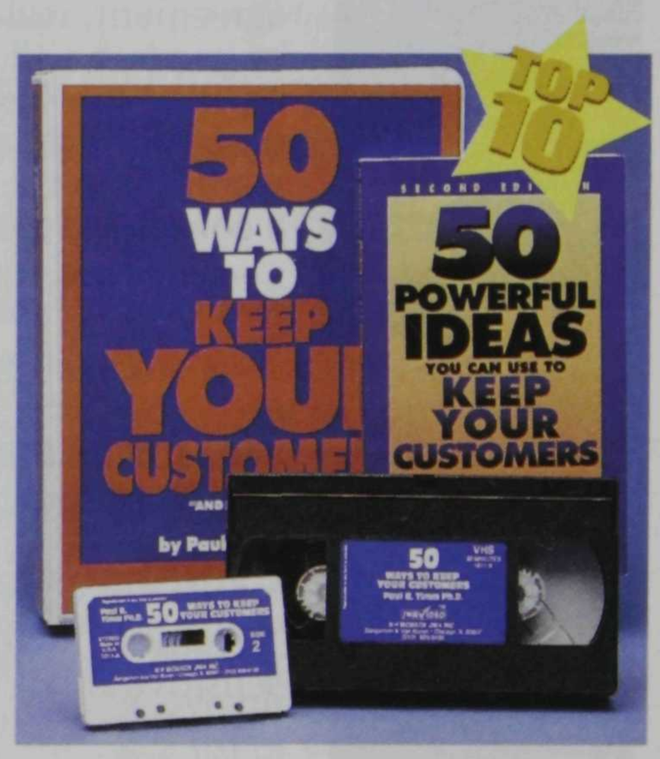
**Computer disk (DOS 5-1/4, 3-1/2, WINDOWS 3-1/2, MAC) and 126-page reference book**
**Regularly priced: $129.00**

Your Price:
**$99.00** plus $6 s/h

## A powerful customer retention tool!

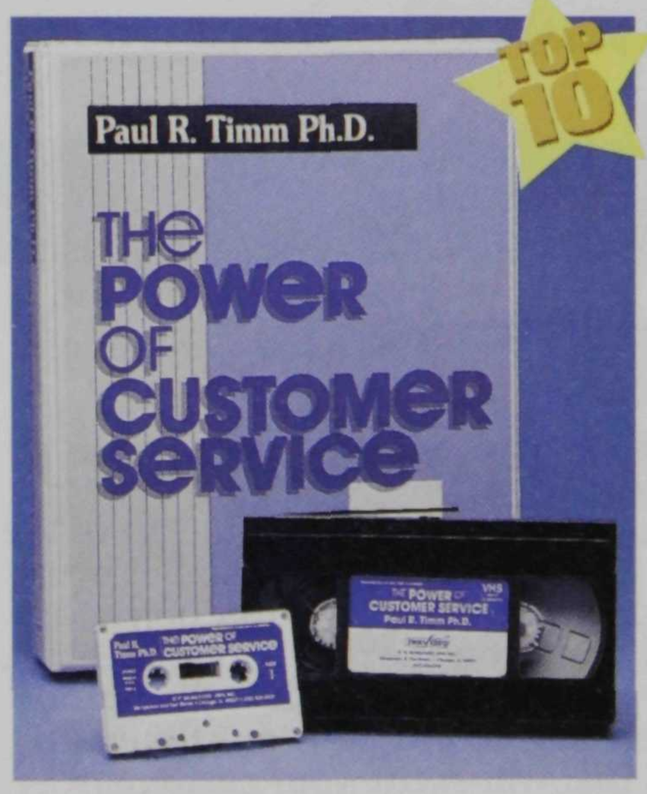
## 50 WAYS TO KEEP YOUR CUSTOMERS

Fifty super techniques that keep your customers—and employees—happy. You can turn every customer into a lifelong client with this best-selling video workshop. Must viewing for owners, managers, salespeople, telemarketers, office staff—everyone who deals with customers in person or by phone. Segmented into easy viewing sections.




**Video. VHS only. Running time 45 minutes. Includes companion audiocassette and workbook.**

**$99.95** plus $6 s/h




## Help your employees understand the secret to getting repeat business.

## THE POWER OF CUSTOMER SERVICE

Customers often buy because of the quality of the service, rather than the quality of the product. Show employees how to deliver the service that creates satisfied customers and turns around disgruntled customers. Help them deal with customers courteously even when they're under pressure. Demonstrate how to communicate concern and competence. Put your company on the inside track to consumer confidence.

**Video. VHS only.**
**Running time 45 minutes.**
**Includes companion audiocassette and workbook.**

**$99.95** plus $6 s/h




## Master proper phone etiquette in 30 minutes!

## WINNING TELEPHONE TIPS

Learn why it's important to place your own telephone calls, how to avoid unnecessary call screening, and how to make your voice mail more efficient. Also learn innovative ways to prevent callers from wandering off the topic, who calls back if you're disconnected, how to properly answer the telephone, and why it's important to say, "thank you for calling" when the conversation is completed.

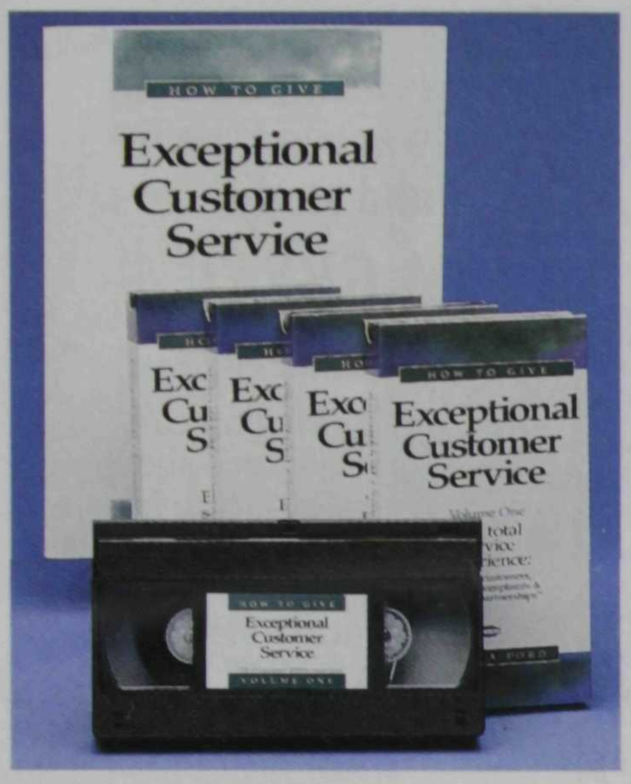
**Video. VHS only. Running time 30 minutes. Includes companion audiocassette and workbook.**

**$99.95** plus $6 s/h

**ORDER NOW! CALL TOLL-FREE 1-800-429-7107**

Nation's Business

CUSTOMER SERVICE, FINANCE, MARKETING

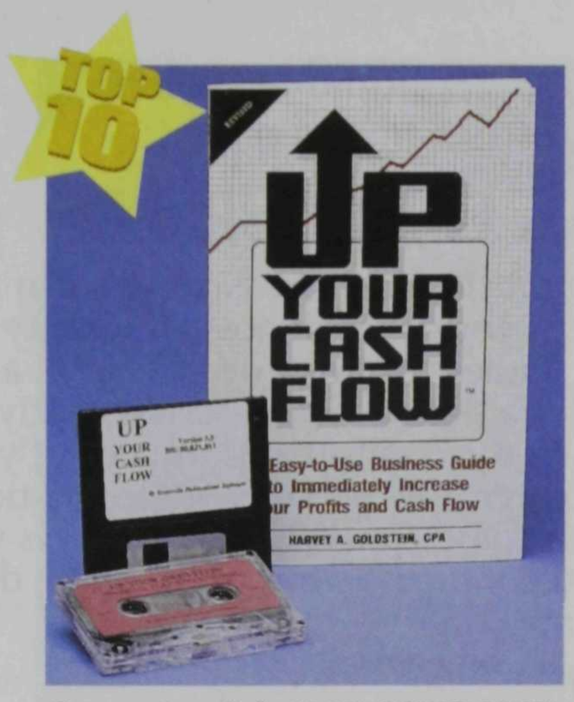



Four videos. VHS only. Running time 212 minutes. Includes 40-page workbook.
$299.95 plus $6 s/h

Quick service doesn't have to mean poor service.

## HOW TO GIVE EXCEPTIONAL CUSTOMER SERVICE

See for yourself how easy it is to serve customers quickly, but still leave them feeling pampered. Watch how easy it is to enforce company policy without turning off customers. This video series will help you make every customer contact more pleasurable and profitable; you'll build a base of customer devotion, loyalty, and repeat business.




Computer disk (DOS, WINDOWS)
$119.95 plus $6 s/h

Increase your profits and cash flow.

## UP YOUR CASH FLOW

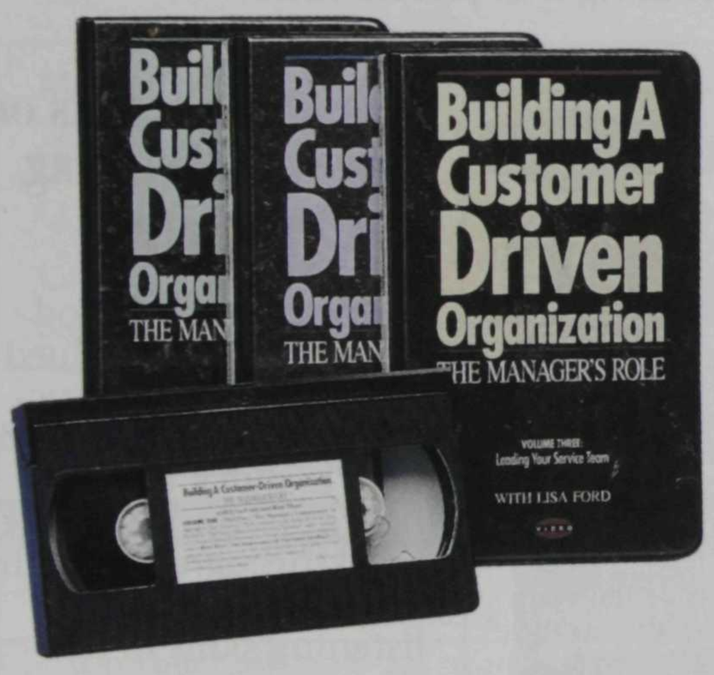
How much cash will you need next week, next month, or next year? If you've never had the time or the tools to project cash flow, here's the product for you. Just answer the questions on your screen about sales and expenses, and out pops a complete financial plan in spreadsheet format…without wasting a moment's time to set it up! You can spot trends, run "what if" scenarios, and always know your cash needs in advance.

**FREE WITH YOUR PURCHASE:**

The *Up Your Cash Flow* tutorial will make learning the software a snap!

Management makes the difference!

## BUILDING A CUSTOMER-DRIVEN ORGANIZATION: THE MANAGER'S ROLE

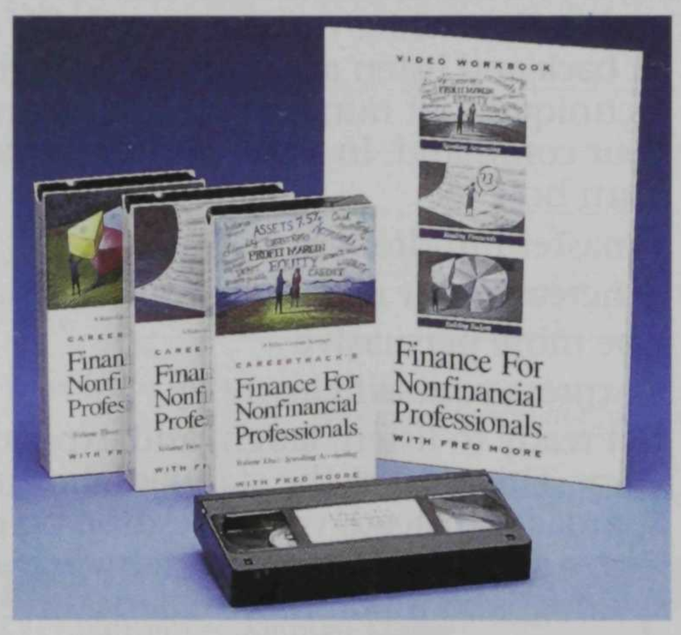



Three videos. VHS only. Running time 252 minutes. Includes 24-page workbook.
$199.95 plus $8 s/h

Most customer service programs focus only on the people in contact with the customer. This 3-part video series explores customer service from a quality management, top-down perspective. Managers learn what customers really want from their business, how to add value for customers at every step, and how to motivate employees to provide great service.

If you need to learn about accounting, finance, and budgeting…here are the answers!

## FINANCE FOR NONFINANCIAL PROFESSIONALS




Three videos. VHS only. Running time 231 minutes. Includes 48-page workbook.
$249.95 plus $6 s/h

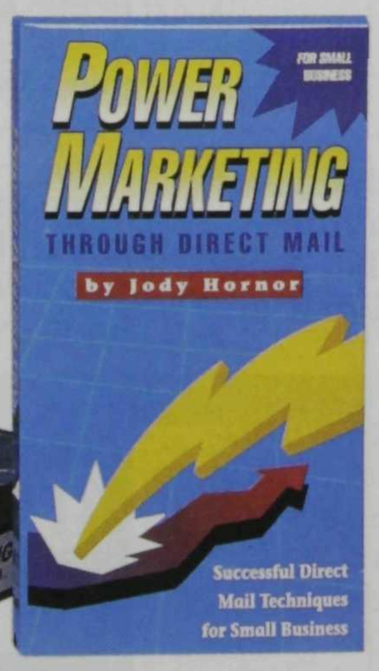
Make more confident and well-informed decisions in money matters. Deliver analyses and reports that demonstrate your control of your business. This exceptional video series helps you learn every basic nuance of finance, including accrual vs. cash reporting; direct and fixed costs; tests for liquidity, leverage, and solvency; revenue projections, and more.

Create a low-cost, high return, advertising program.

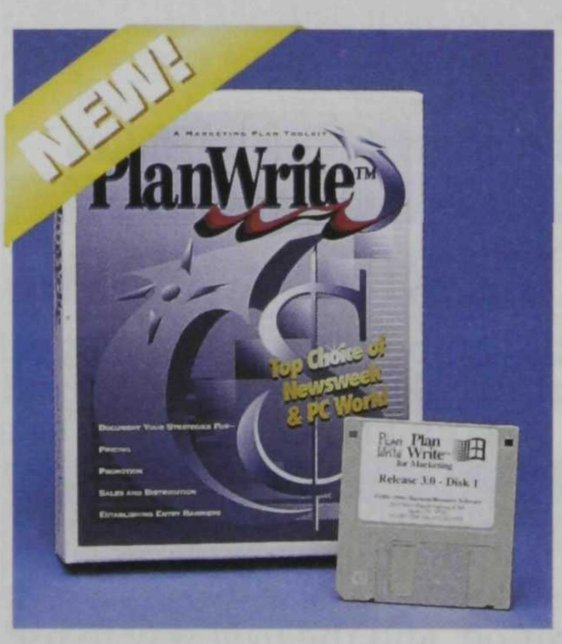
## POWER MARKETING THROUGH DIRECT MAIL

A successful direct mail professional demonstrates how to turn limited advertising dollars into image and sales-building direct response results. This example-based video details the step-by-step process that provides the leads and inquiries that are the lifeblood of every small business.




Video. VHS only. Running time 110 minutes.
$69.95 plus $6 s/h



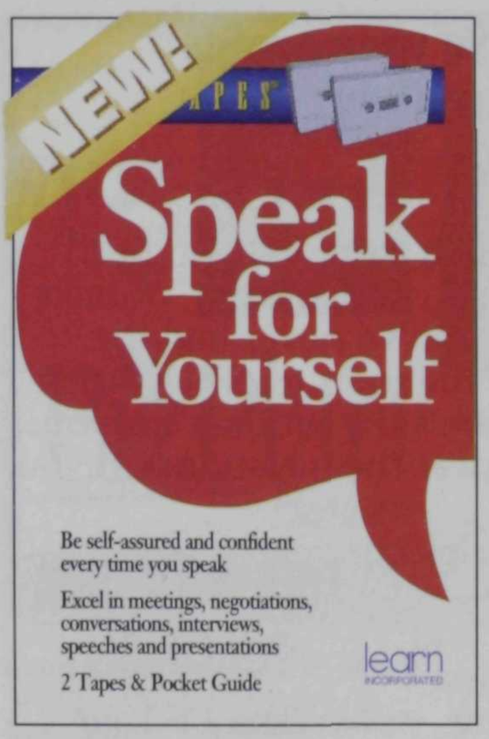

Computer disk (WINDOWS 3-1/2) and 124-page reference guide.
Regularly priced: $129.95
Your price:
$99.00 plus $6 s/h

Stimulate creative ideas and strategies and document your plan.

## PLAN WRITE FOR MARKETING

Turn your creative ideas and strategies into a sound marketing plan. This easy-to-use product contains detailed explanations for many concepts including prospect objectives, sales and distribution, competition, pricing, promotion, and more, and produces a marketing plan that is ready to perform.

**ORDER NOW! CALL TOLL-FREE 1-800-429-7107**




2 audiocassettes and companion pocket guide
$19.95
plus $3 s/h

**Deliver exceptional speeches with confidence and ease.**

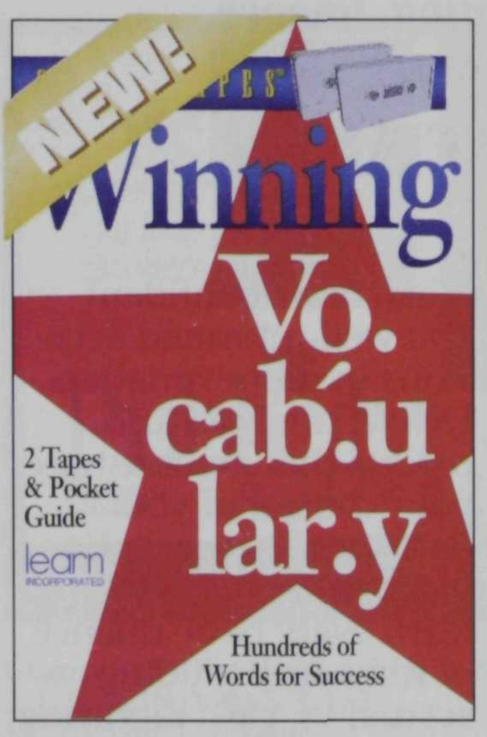
## SPEAK FOR YOURSELF

Why sit on the sideline? Now you can stand up and speak with confidence! The ability to captivate an audience of one or 100 is not a natural talent. It's a skill you can learn—quickly and easily—in the comfort and privacy of your home.

No matter how nervous or tongue-tied you've felt in the past, *Speak for Yourself* gives you the skill and confidence you need. You'll discover how to:

- present ideas with impact
- give a speech without notes
- handle questions with confidence
- win an audience's respect
- radiate confidence and success

It's like having a personal coach every step of the way, from the first idea to the final applause.




2 audiocassettes and companion pocket guide
$19.95
plus $3 s/h

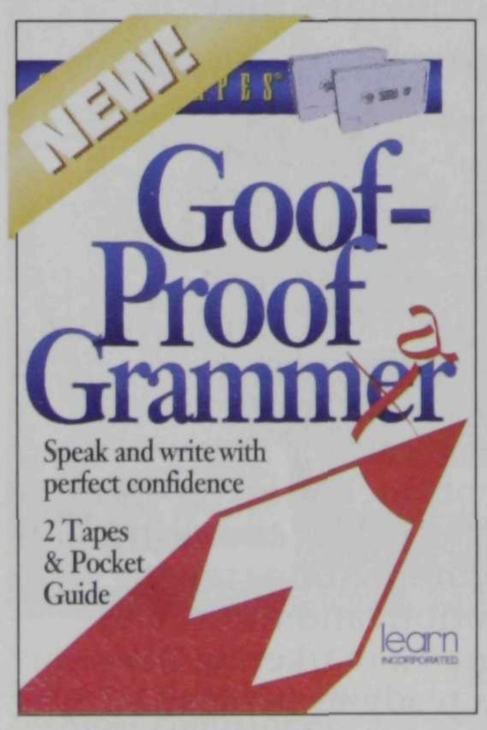
**Proven techniques to enhance your vocabulary.**

## WINNING VOCABULARY

Now you can learn hundreds of new words quickly and easily—while you drive, exercise, or relax. Just sit back and listen as our breakthrough learning techniques put hundreds of exciting new words at your command. In a few minutes a day, you'll learn how to:

- master hundreds of new words
- increase your reading comprehension
- be more persuasive
- express yourself clearly

Get ready to listen, laugh, and expand your vocabulary. This is NOT the standard, boring dictionary approach. Instead, you eavesdrop on a series of clever conversations that teach you meaning, spelling, and much more. Each conversation shows you exactly how to use the new words when you speak or write. And we explain all the *nuances* (variations that can change the meaning) so you'll always use the right word, at the right time, in the right way.



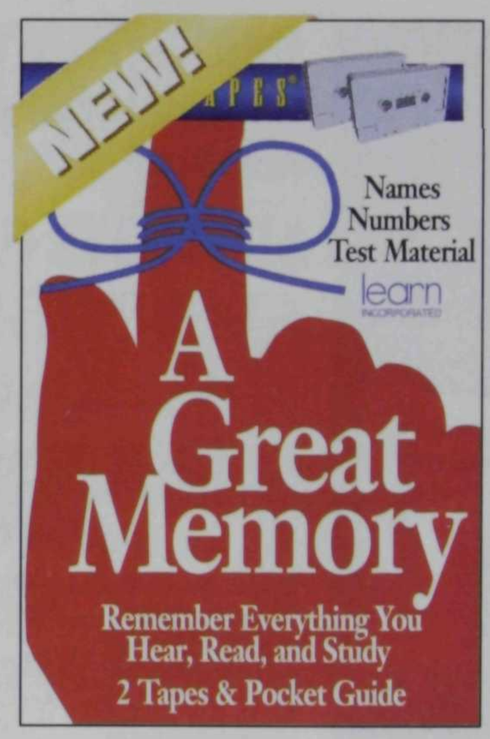

2 audiocassettes and companion pocket guide
$19.95
plus $3 s/h

**Avoid embarrassing mistakes when you speak or write!**

## GOOF-PROOF GRAMMAR

At last! A no-nonsense grammar guide that gives you just the skills you need. In less than three hours you can master the top 10 areas that cause most people trouble—whether they realize it or not—in everyday speaking and writing.

We'll show you seven places you *must* use a comma, when it's okay to end a sentence with a preposition, and the *right* way to use a semicolon. We go straight to the grammar trouble spots and answer the nagging questions that plague you whenever you speak or write. Every guideline is short, simple, and easy to remember. You'll learn to find your errors and fix them in just minutes. With these simple guidelines, grammar finally makes sense!



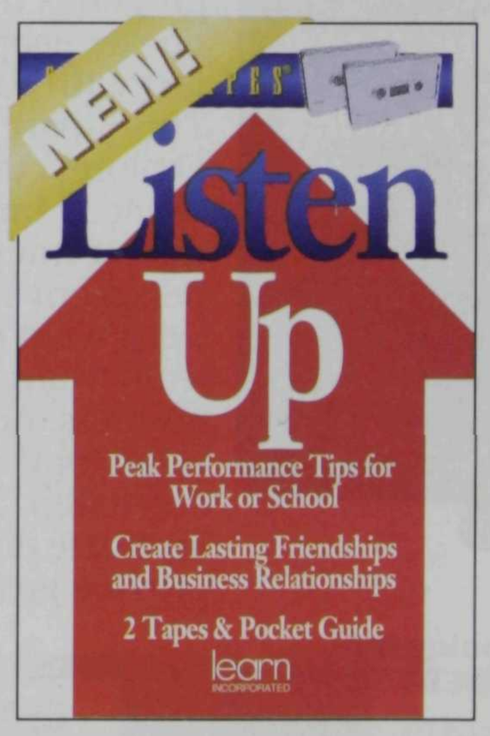

2 audiocassettes and companion pocket guide
$19.95
plus $3 s/h

**Discover how to remember what you read, hear, and study.**

## A GREAT MEMORY

Now anyone can have a super-sharp memory—quickly and easily—using these simple breakthrough memory techniques. This is NOT the standard boring lecture approach. Within minutes, these interactive tapes hook your mind into a series of games and exercises that link advanced memory skills into the "recall" centers of your brain. You'll always remember a birthday, recall facts, figures, and numbers, remember every name you hear, and jokes and anecdotes.

You'll discover how to tap into your natural photographic memory—a permanent memory that will never let you down. It's as easy as closing your eyes... so simple a 7-year-old can do it...and you can start using it in just minutes.




2 audiocassettes and companion pocket guide
$19.95
plus $3 s/h

**Master the secrets of successful listening.**

## LISTEN UP

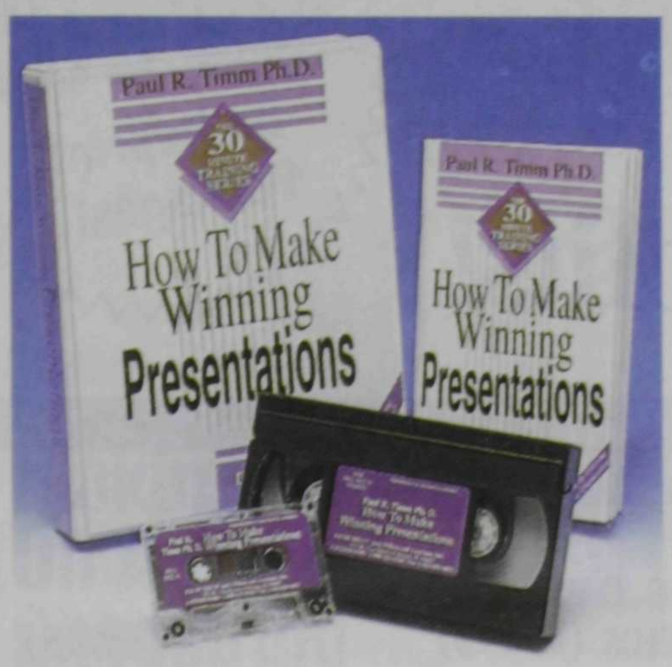
Everyone likes a good listener. They're valued as friends. They're successful in business. And they're quick to see new opportunities. Our breakthrough approach lets you activate your listening skills in less than an evening—and tap into more of the guidance and information that are around you each day. Know *what* questions to ask and *how* to ask them, how to interpret body language, and how to be a better manager.

Discover how to listen responsively—using your eyes, your ears, and you heart—so people will open up to you in new ways. You'll remember far more of every conversation, meeting, or conference you attend...and gain exceptional knowledge and understanding in every situation.

**ORDER NOW!**
**CALL TOLL-FREE**
**1-800-429-7107**

# Nation's Business

## Business Resources



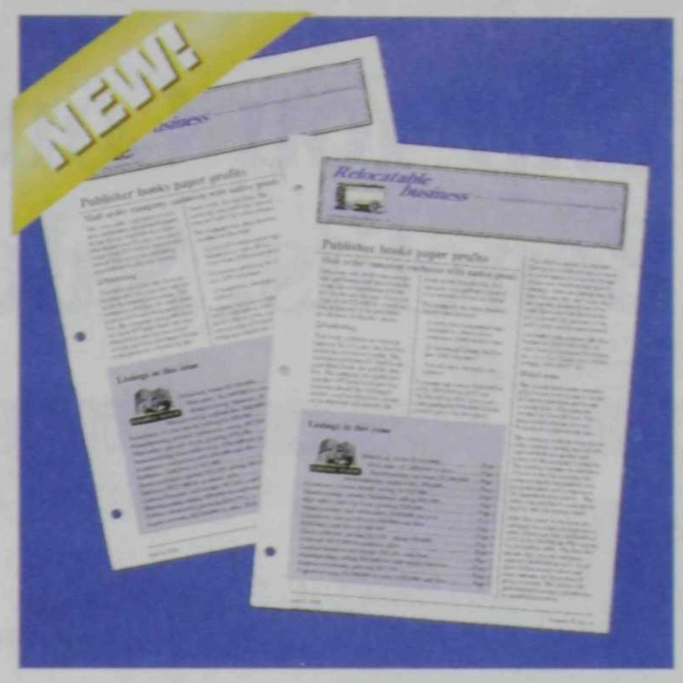

VHS only. Running time 30 minutes. Includes companion audiocassette and workbook.

**$99.95**
plus $6 s/h

### Feel comfortable and in control with any individual or group.

## HOW TO MAKE WINNING PRESENTATIONS

You can quickly and easily overcome presentation jitters. With these 30 sure-fire tips, you'll look and act composed... and give each audience (of one or a thousand) exactly what they expect. Learn and apply success tactics used by top speakers to make listeners remember exactly what they want them to... and how to adjust to every audience.




One-year subscription (24 issues). Regularly priced: $150.00

Your Price:

**$120.00**
plus $6 s/h

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# Free-Spirited Enterprise

*By Michael Barrier*

## Making Movies On A Gilded Shoestring

We first crossed paths with Larry Estes more than 20 years ago, when he was a college kid in Georgia, working for Films Inc., a 16mm-film-rental company, at its branch in the Atlanta suburbs. In the years since, we've seen him in New York, where he was lining up feature films for release on RCA's ill-fated videodiscs, and in Los Angeles, where he was a senior vice president of Columbia TriStar Home Video.

In the latter role, he financed dozens of low-budget ($1 million to $4 million or so) films; they were mainly for release on home video, but some of them turned into surprisingly big theatrical hits, taking in many times their cost at the box office. (The best-known of these films is "sex, lies and videotape.")

So successful was Estes at his job that a couple of movie-industry magazines named him to their lists of the 100 most important people in Hollywood, and *The New York Times* featured him in its Sunday business section in 1992.

He left Columbia TriStar 2½ years ago and started his own small business, Welb Film Pursuits. We caught up with him over dinner recently in Studio City, a Los Angeles suburb, to ask him about his new career.

When he first encountered the complexities of running his own company, "it was really eye-opening," he says. "I think everybody who works in a big company should have to do that once in their life." But he likes being in business for himself, particularly because of "the upside potential. I'd been in a corporate environment ever since I was out of college, and I always felt I was at the mercy of the bosses when it was raise time."

Estes is now one of those amorphous creatures, an independent film producer, with eight features to his credit so far. As to what it is that an independent producer does, exactly, he can't really pin it down other than to say he is a "facilitator."

"My parents still don't have any idea what it is I do," he says. "And the main reason they don't is that I can't explain it to them." One reason he can't, perhaps, is that in the movie business, even more so than in most businesses, the ground is constantly shifting under an entrepreneur's feet.

"I had no idea how great I had it" while at Columbia TriStar, he says. "At one point, I was financing 20 films a year. I would be sitting at my desk in Burbank, and the dailies [footage shot the previous day] would come in, on videotape, from films that were shooting in New York, or New Mexico, or Minneapolis. One day, I had seven films shooting at once."

Today, he says, the returns from such low-budget independent productions are no longer as predictable as they once were. "Five years ago, movies that cost $1 million to $1.5 million to make were as safe as milk," he says. "The person putting up the money knew that they would easily sell $1 million worth of video, unless it was a movie of three people in a room talking. Foreign [sales] would almost match the video money; it wouldn't have to have a theatrical release.

"Unfortunately," he continues, "it was like all good formulas—everybody figures them out and gluts the market, and they go away." A bright side to such a change, he says, is that "it forces people to think about what they're doing and make better movies."

And even though home-video sales have become less predictable, other avenues, such as pay cable, have been opening up. "Showtime and HBO were only starting to dabble in doing their own films" when he was with Columbia TriStar, Estes says. "Now they do them weekly."

He has produced five science-fiction features that are premiering on Showtime; in one, "Amanda and the Alien," he makes an Alfred Hitchcock-like cameo appearance as a man wearing sunglasses and reading a newspaper.

One advantage to private financing, as opposed to studio financing, Estes says, is that "it gives the filmmaker a better opportunity to make a unique film, without a lot of unnecessary input from executive types." But finding private sources is grueling work because so many potential investors have already lost money on bad movie deals.

Fortunately for Estes, he has "a track record that bears out that I do know when somebody's worth taking a chance on." And the fundamental lure of independent production has not changed: If a film succeeds, "the upside goes to the investor, and not to a studio."

Sometimes investors come to people like Estes looking for films to invest in, but that doesn't happen often. "Mostly," he says, "people who don't have money come to me, and I have to go to the people that have the money. I wish it were the other way around."

Estes considers himself a "hands-on" producer, which means he has "more of a daily say in whether we do something one way or another—who we cast, who the people in the crew are, what's in the script."

He's comfortable working on small-scale films because they permit him that kind of direct involvement. "I don't really aspire to the big-studio movie," he says, "because a producer in that area basically turns over a deal [to a big studio], selling it for a profit, unless he's very well-established. Most of the hands-on control is at the studio-executive level. I'd rather be involved. And when only a few million dollars is at risk, I sleep better." NB

ILLUSTRATIONS: MICHAEL ROOK

# Where I Stand

## On Independent Contractors

Background: High on the wish list of recommendations by the 1995 White House Conference on Small Business was reform of laws and regulations on independent contractors. Stories in the December 1995 and March 1996 issues of *Nation's Business* described the problems of classifying workers for tax purposes and offered ideas on how to avoid such difficulties. Several bills pending in Congress would change the rules. These questions ask for your experiences and views on this issue.

Results of this poll will be forwarded to administration officials and congressional leaders. (Individual responses will remain confidential.) Send the attached, postage-paid Reader Response Card. Or circle your answers below and fax this page to (202) 463-5636.

**1 Do you use independent contractors in your business?**

1. Yes
2. No

**2 What criteria do you use to classify the persons you hire as independent contractors?**

1. "Safe-harbor protection" (a reasonable basis for treating the worker as an independent contractor, submission of all required federal tax returns, and having no employee doing similar work)
2. The 20-part Internal Revenue Service test
3. Both
4. Not applicable

**3 If you use independent contractors, has the Internal Revenue Service ever questioned your classifications?**

1. Yes
2 No
3 Not applicable

**4 If the IRS has audited your business, what was the result?**

1. No change was made regarding my independent contractors
2. Some or all of my independent contractors were reclassified as employees, but no penalties and/or back taxes were assessed
3. Some or all independent contractors were reclassified, and the IRS assessed back taxes and/or penalties
4. Not applicable

**5 Have you ever forgone using independent contractors to avoid dealing with the IRS?**

1. Yes
2. No

**6 How important a consideration is use of independent contractors in deciding whether to expand your business?**

1. Very important
2. Somewhat important
3. Unimportant
4. Not considering expansion

***Send Your Response Today!***

POLL RESULTS

# Readers' Views On Outsourcing

Outsourcing has clearly become a standard practice for U.S. small businesses, according to the results of a *Nation's Business* poll.

Eighty-seven percent of respondents to the Where I Stand poll in the March issue said they outsource at least some of their business activities, and nearly three-fourths said they have no plans to bring any outsourced functions back into their firms.

The functions that are outsourced the most, according to the poll, are taxes/accounting/auditing duties and equipment maintenance/janitorial services.

Nearly half of all respondents said outsourcing has allowed them to shift resources to the most important business areas, which many had cited as a major reason for outsourcing some of their work in the first place.

Outsourcing has become a major growth area in the economy as companies turn increasingly to outside contractors to perform functions that require skills the companies lack, would cost too much to perform in-house, or would divert attention from improving the firms' products or services.

Here are the complete results of the poll:

## OUTSOURCING

**What percentage of your firm's activities are outsourced?**

| | | | |
|---|---|---|---|
| Zero | 13% | 21 to 30 percent | 7% |
| No more than 10 percent | 58 | More than 30 percent | 8 |
| 11 to 20 percent | 14 | | |

**What kinds of activities do you outsource? (Respondents could check more than one.)**

| | | | |
|---|---|---|---|
| Payroll/benefits administration | 37% | Manufacturing/processing/assembling | 29% |
| Taxes/accounting/auditing | 50 | Marketing or sales | 6 |
| Equipment maintenance /janitorial services | 44 | | |

**Why do you outsource? (Respondents could check more than one.)**

| | | | |
|---|---|---|---|
| Reduces administrative costs | 28% | Lowers costs of providing products or services | 28% |
| Lack of in-house skills | 58 | Reduces need for further capital investments | 20 |
| Gives managers more time to focus on products/services and business expansion | 36 | | |

**How has outsourcing affected your firm? (Respondents could check more than one.)**

| | | | |
|---|---|---|---|
| Lowered administrative costs | 26% | Helped increase revenue | 18% |
| Lowered costs of providing products/services | 28 | Had no measurable impact | 24 |
| Allowed for the shifting of resources to business areas considered most important | 46 | | |

**Is your firm likely to outsource more functions?**

| | | | |
|---|---|---|---|
| Yes | 27% | Unsure | 26% |
| No | 47 | | |

**Are you considering bringing back in-house any function now outsourced?**

| | | | |
|---|---|---|---|
| Yes | 16% | Unsure | 11% |
| No | 73 | | |

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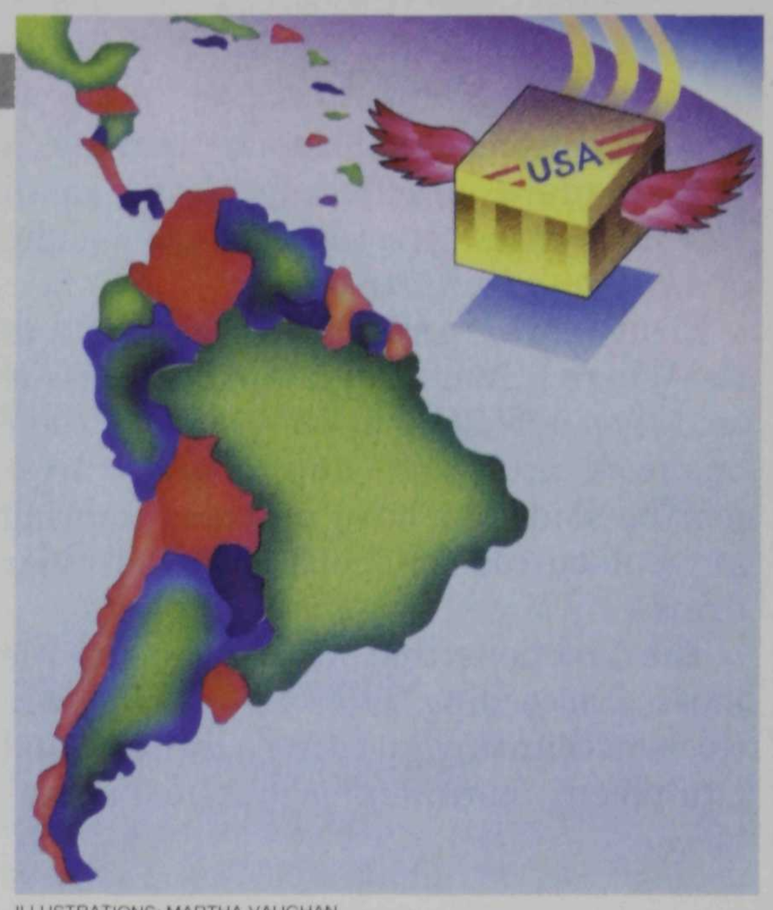
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# Direct Line

*Experts answer our readers' questions about starting and running their businesses.*

*By Laura M. Litvan*




ILLUSTRATIONS: MARTHA VAUGHAN

## INTERNATIONAL TRADE

### Red-Hot Markets

I recently started a business that exports U.S. products to South America and the Caribbean. So far, I have shipped everything from construction and food-service materials to motorcycles. I want to begin narrowing my business focus to countries and product lines with the greatest growth potential. How can I pinpoint them?
*D.M., Boca Raton, Fla.*

Small businesses like yours that are entering the Latin American and Caribbean markets are finding that sales sizzle in Brazil, Argentina, Mexico, and the Dominican Republic, says Bernie McDermott, an international-trade representative with the Florida Department of Commerce. In fact, Brazil has become the leading destination of exports shipped from your state. For the first three quarters of 1995, Florida-origin exports to Brazil reached $1.5 billion, a 73 percent increase over the similar period in 1994.

To find the strongest market sectors, start with the National Trade Data Bank, a collection of CD-ROMs containing U.S. government trade statistics. Updated monthly by the U.S. Department of Commerce, the CD-ROMs are available in about 1,000 U.S. libraries. For the location nearest you, plus some other resources, call the Commerce Department's trade hot line at 1-800-USATRADE (1-800-872-8723).

Two resources in this database could be especially useful. One, which could help you target your approach by country, is a series of U.S. Census Bureau reports detailing total U.S. exports to every nation for each of the past few years. The other resource is a collection of reports from the Commerce Department's International Trade Administration describing the best growth prospects in specific countries. The reports, listed under the heading of "Country Commercial Guides," provide a wealth of information to help make your company competitive.

For example, in just 20 minutes of exploring the ITA reports, we learned that:

■ The best market to target in Brazil is telecommunications. The country's overall market for telecommunications equipment is the largest in Latin America and is expected to grow to about $15.2 billion by year's end, compared with $8.3 billion in 1994.

■ In Argentina, travel and tourism is a hot market. So is the market for equipment to generate electrical power; much of the country's equipment now in use is outdated and must be replaced.

■ In the Dominican Republic, sales of U.S.-made automobiles reached $563 million in 1994—the year that taxes on U.S. cars were reduced—and they are expected to climb to $750 million by the end of 1996.

Two final tips: Individual states' departments of commerce are excellent sources of export-promotion help. Call your department's office of Latin American affairs in Miami at (305) 870-5000. Also, see our report "At A Crossroads In Latin America," on Page 38 of the April issue. ■

## GETTING STARTED




### Stocking Up

I would like to become a stockbroker dealing in shares on the Nasdaq and New York exchanges. Is there an examination I would need to take to qualify for a license?
*S.V., League City, Texas*

The National Association of Securities Dealers, in Washington, D.C., administers the tests that people must pass before engaging in securities transactions. To get into this business, you also must be employed by a brokerage.

The NASD's tests range from one for securities-sales supervisors to another for workers who process client orders.

To learn more, including the location of a testing site near you, call the NASD's Rockville, Md., office at (301) 590-6500.

### Start The Presses

I'm considering publishing a newsletter. Please tell me where I can get information about the newsletter business.
*E.A., Dalton, Ga.*

The Newsletter Publishers Association, a trade group based in Arlington, Va., sells two books that could prove useful for you: *How to Launch a Newsletter,* priced at $11.50, and *Success in Newsletter Publishing: A Practical Guide,* $39.50. To order, call (703) 527-2333.

### Opening Page

I would like to start a paging business. Is there an organization that offers information about the industry?
*J.S., Marlton, N.J.*

The Personal Communications Industry Association, in Washington, D.C., offers a number of publications; one is a monthly magazine, *New Waves*, which costs $55 a year.

To learn more about the group and its resources, call (202) 467-4770, or see the PCIA's home page on the World Wide Web at *http://www.pcia.com.* ■

## HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number. Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and city.

TECHNOLOGY

## Software Search

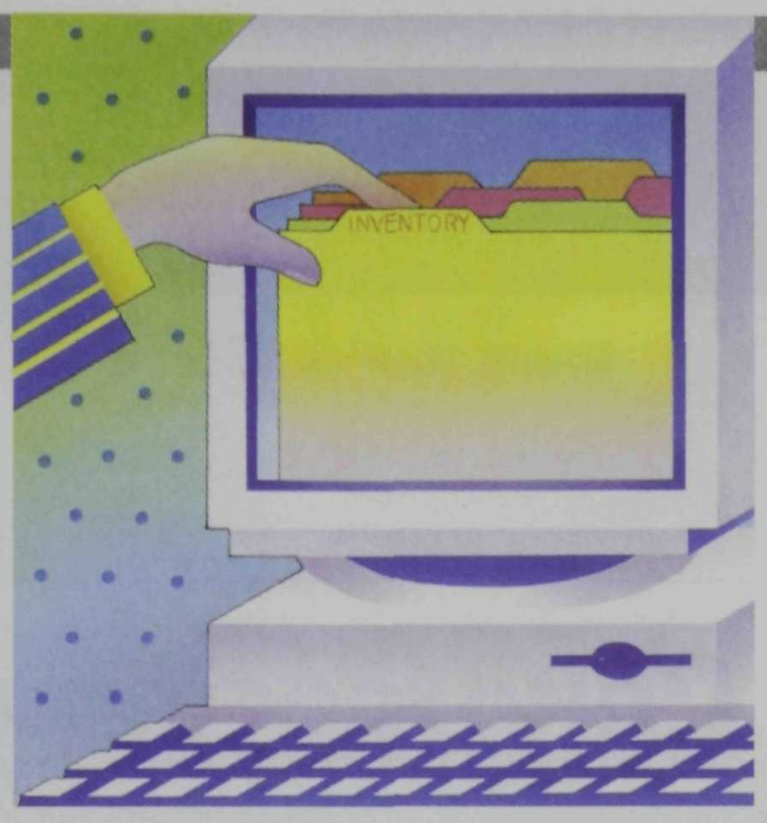
I need to buy the right software for my small mail-order firm, which sells replacement parts for antique trucks. We need something PC-based that can help us produce invoices, track inventory, and keep records of customers. How can I ensure that I make the right choice even though technology is not my forte?
*P.K., Denton, Texas*

Before you set foot in a computer-products store or call a consultant, focus on the big picture. First, assess what you really need from a software package, and visualize how it will fit into your total business strategy, say software specialists.

Among the questions they say you should ask yourself:

How big is my inventory, and how complex are my order-taking and inventory-tracking processes?

Also, what level of computer expertise do my employees have? Will we use one computer or a network of computers? What computer hardware do I have? Do I need some sophisticated features, such as the ability to read bar codes on my inventory? What are my long-term technology needs, and what can I afford to spend over the next few years?




Once you have thought through such issues, find another small business in the auto-parts industry that has purchased software that has worked well, advises Roy C. Sigsbey, chief executive officer of the Rosby Co. Inc., a Colorado Springs, Colo., software consulting firm. "They can give you firsthand information about whether a particular type of software is easy to use and might meet your business needs," he says.

Trade associations or local chambers of commerce can often provide leads on businesses that might be willing to talk about this, he adds.

Also, in many areas, computer "user groups" have formed to share information and provide classes to help computer users enhance their knowledge, says Steve Baumann, president of Steve's Help Desk, a Ukiah, Calif., software consultancy. He says local computer stores can often provide names to contact in these groups, which tend to include business owners, consultants, and recreational users.

Once you're ready to shop, a local computer store may have one or more products on its shelves that can meet your needs, says Tim Tierney, director of information systems and technical services at the Automotive Parts and Accessories Association, in Bethesda, Md.

He says many automotive-industry retailers are satisfied with various products offered by two software companies and suggests that you touch base with these firms as you research what's available. One is Profit Pro Inc., in Draper, Utah; (801) 553-9636. The other is Cooperative Computing Inc., in Austin, Texas; (512) 328-2300.

Ultimately, everyone we talked to said you should take some time and care with this decision.

To respond to the growing need for guidance on this topic among *Nation's Business* readers, we will offer a guide to software purchasing in the July issue. NB

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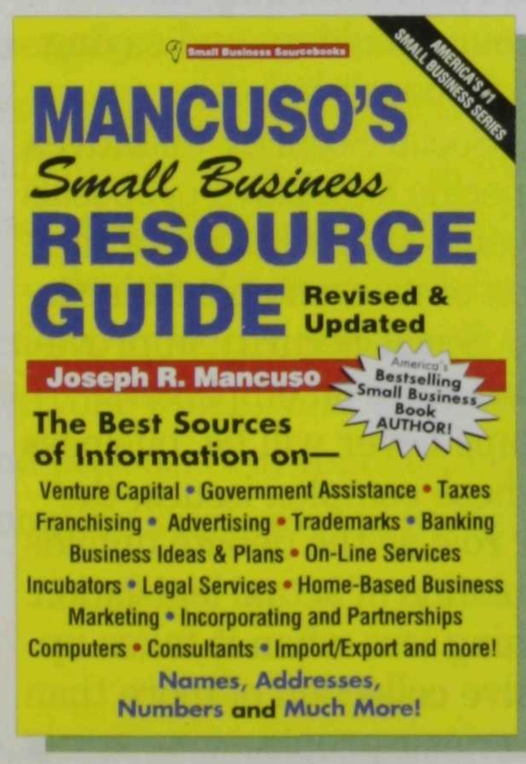
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# Editorial

# Watch These Congressional Initiatives

They aren't in the headlines, but two bipartisan initiatives recently launched in Congress could have enormous impact on the American economy not too far down the road.

The House Ways and Means Committee has begun a yearlong exploration of whether the income-tax system should be eliminated in favor of some form of consumption tax. Committee Chairman Bill Archer, R-Texas, launched the hearings with a renewal of his commitment to "tear the income tax out by its roots."

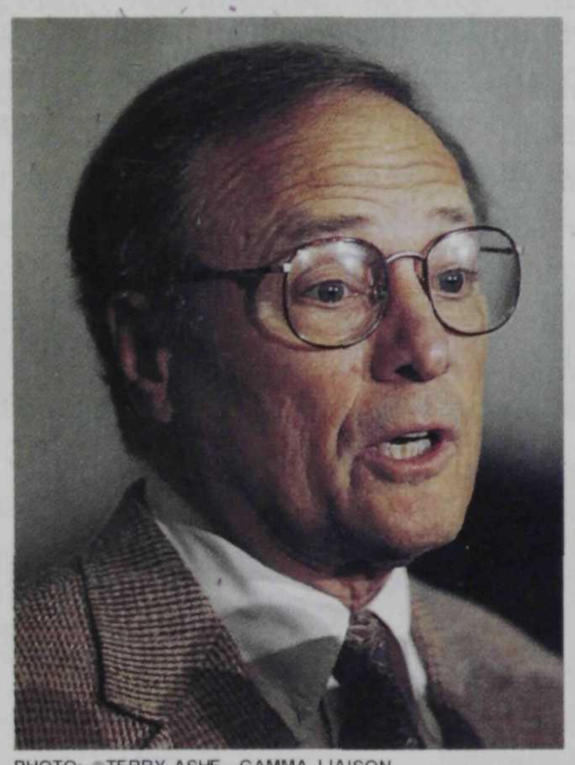


PHOTO: ©TERRY ASHE—GAMMA LIAISON

**Rep. Bill Archer, R-Texas:** *"Tear the income tax out by its roots."*

On the Senate side of Capitol Hill, a drive to alert the nation to the long-range problems in Social Security financing has been started. Sen. Judd Gregg, R-N.H., said, "The purpose of these hearings is to pull heads out of the sand."

There is no more outspoken critic of the current federal income-tax system, nor anyone better positioned to do something about it, than the chairman of the House tax-writing committee. All tax legislation must originate with that panel.

Other lawmakers are calling for a flat-rate income tax with no exemptions or deductions, a flat rate with limited exemptions and deductions, or a less complex system that would retain some progressivity. But Archer is having none of it.

While those reforms would go a long way toward eliminating the complexities and economic disincentives of the present system, Archer says, they would maintain an income-tax system that special-interest groups could nourish back to its overly complex, anti-growth form.

At this early stage of the inquiry, Archer does not offer specific recommendations for taxing consumption, but many experts think the quest could lead to a value-added tax.

On the Social Security issue, the senators leading the effort see it as necessary to draw the attention of Congress, the White House, and the baby-boom generation to the fiscal crisis the system will eventually face, a crisis resulting from an increase in the number of retirees—who are living longer—in relation to the size of the taxpaying work force.

The problem has long been apparent (a *Nation's Business* cover story nearly 25 years ago described the financial and demographic trends threatening the long-range solvency of the Social Security system), but crisis forecasts have drawn mixed reactions.

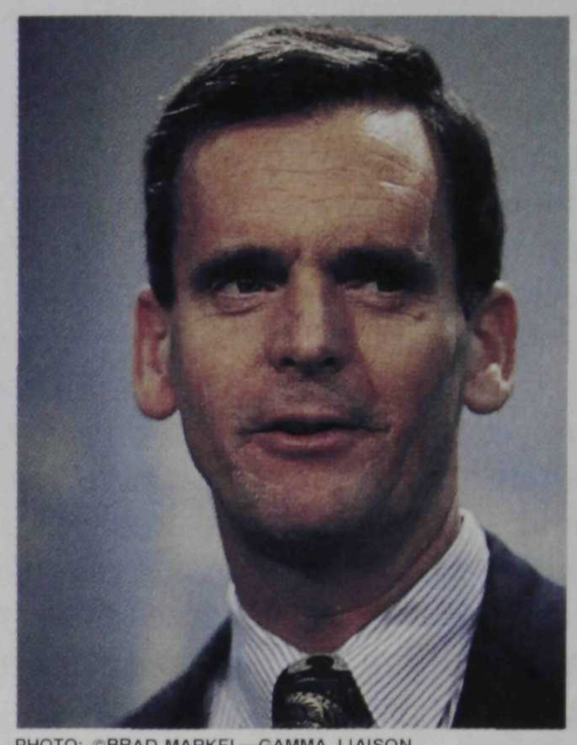


PHOTO: ©BRAD MARKEL—GAMMA LIAISON

**Sen. Judd Gregg, R-N.H.:** *"Pull heads out of the sand."*

Many workers, particularly those farthest from retirement, believe the retirement program will go bankrupt before they are eligible for benefits and that discussions of rescue missions are moot.

Others assume that the government has no choice but to shore up the system no matter what the cost.

Gregg will preside over hearings as chairman of the subcommittee on aging of the Senate Labor and Human Resources Committee. The Social Security subcommittee of the Senate Finance Committee will also look into the financial structure of the system. Sen. Alan K. Simpson, R-Wyo., chairman of that subcommittee, said in urging baby boomers to take an active role in working for solutions: "Simply shrugging your shoulders and saying 'It's not going to be there for us' doesn't help."

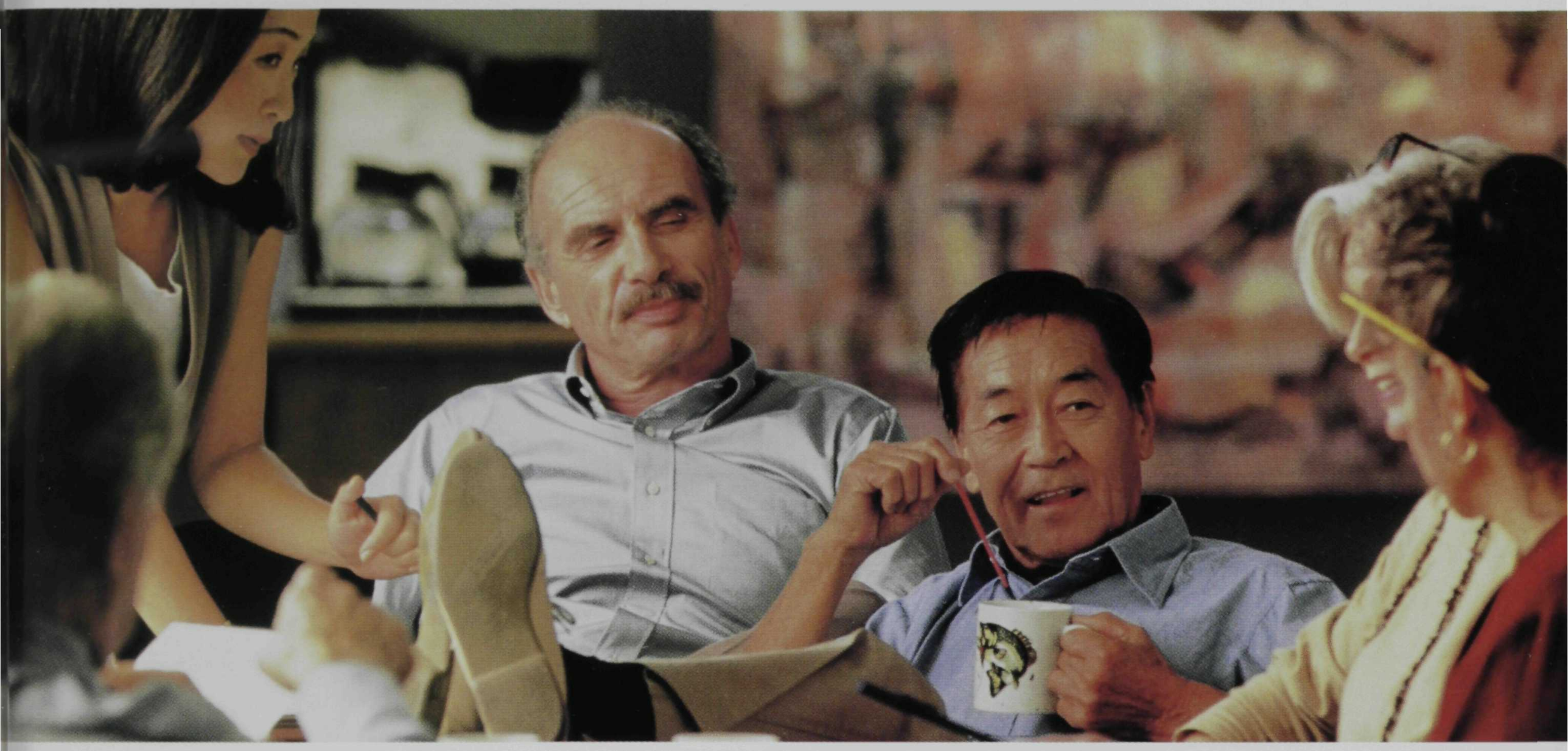
Both the income-tax and the Social Security initiatives have a long way to go before specific legislative proposals are made. Business would welcome simplification of the present tax system and abolition of its economic disincentives and would generally favor Social Security improvements that did not impose added costs on employers.

While there is not, and perhaps never will be, business unanimity on ways to resolve these complex issues, the private sector will play a major role as the debate unfolds and will contribute to the formulation of actual legislation.

Congress should expect nothing less when it takes up government activities that involve collection of more than $1 trillion a year from the American people. NB

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Buckle Up! Do it for those who love you. *Car and Driver, November 1995. In a comparison test of six family four-door sedans, Camry was rated #1. Camry was compared against the Lumina, Intrepid, the new Taurus, Accord and Maxima.

# The Business Advocate

SUPPLEMENT TO Nation's Business MAY 1996

Published By U.S. Chamber of Commerce




U.S. Chamber Senior Vice President R. Bruce Josten urged President Clinton to sign bipartisan legislation to overhaul the nation's product-liability laws. Others who took part in the Capitol Hill press conference included Sens. Joseph I. Lieberman, D-Conn., far left, and John D. "Jay" Rockefeller IV, D-W.Va.

# Chamber Wins Enactment Of Business-Backed Laws

The U.S. Chamber of Commerce scored major victories for business with the recent enactment of some of the organization's top legislative priorities. Achievements include new laws to protect small firms from overly burdensome government regulations, give the president veto authority over line items in tax and spending measures, allow retirees to earn more money without losing Social Security benefits, and end planting controls on farmers.

*(See Pages 4A and 5A for details.)*

■ Benefits

# Fidelity, Chamber Set Retirement-Plan Offer

The U.S. Chamber of Commerce and Fidelity Investments are teaming up to offer a package of retirement plans and services to Chamber member companies, which employ nearly 24 million American workers.

The Chamber and Fidelity said they expect to begin offering the retirement plans and services, which are designed primarily for companies employing fewer than 100 workers, this summer.

The program will make it much easier for small businesses to offer their employees high-quality, cost-effective retirement savings programs, according to the Chamber. The business federation has found that retirement savings is one benefit that has been difficult for a vast majority of America's small-business owners to afford to offer their employees.

Raymond J. Marcinowski, senior vice president of Emerging Corporate Markets, Fidelity's retirement group dedicated to small businesses, said: "In offering retirement plans, small-business owners typically face significant cost and administrative burdens. Through this program with the U.S. Chamber, Fidelity's package of products and services will address these challenges by offering affordable and convenient retirement solutions.

"We have created a 401(k) product that specifically provides for easier implementation, effective employee education, and state-of-the-art plan administration through our use of technology," Marcinowski said.

The retirement products offered to Chamber members, most of which are companies with fewer than 100 employees, will include 401(k), Keogh, and SEP-IRA plans. Fidelity mutual funds will be offered with these products.

In addition to investment management, Fidelity will provide record-keeping services and employee-communications material for the plans.

Emerging Corporate Markets, a division of Fidelity Institutional Retirement Services Co., is one of the nation's largest providers of 401(k) plans and services to businesses with fewer than 1,000 employees.

It serves 4,300 plan sponsors and manages over $12 billion in retirement assets for more than 410,000 plan participants.

Fidelity Investments, with total managed assets of $428.4 billion as of the end of February, is one of the country's leading providers of financial services. It is the nation's largest mutual-fund company and the second-largest discount brokerage firm, with more than 80 Investor Centers across the U.S.

Fidelity is also the nation's largest provider of 401(k) retirement-savings plans to corporations and the third-largest provider of retirement plans to not-for-profit institutions.

■ For Members

# Internet-Access Cost Savings Set

The U.S. Chamber of Commerce and Concentric Networking Corp., a Cupertino, Calif., firm that provides access to the Internet, are offering Chamber members a connection to the global network of computers for $1.

For their $1, members who sign up for the service, called The Chamber Connection, will receive a copy of Netscape Navigator for Windows, the most popular software for viewing pages on the Internet's World Wide Web, and one month's Internet access.

After the first month, members may obtain time on the Internet for as low as $7.95 a month, depending on the number of hours they plan to be on line.

To join The Chamber Connection, call 1-800-939-4262.

■ Big Yellow

# On-Line Ads Available At Discount

One of America's largest providers of interactive shopping and marketing-information services is offering a substantial discount to U.S. Chamber of Commerce members who want to place advertising in the firm's new Big Yellow on-line shopping directory.

Chamber members are eligible for special introductory pricing for one year on the on-line directory service, launched in late March by NYNEX Information Resources Co., a subsidiary of the regional Bell operating company in the Northeast.




The directory service is on the highly graphical World Wide Web portion of the Internet, the fast-growing global web of computer networks.

The service features advertising pages that include the names, addresses, and telephone numbers of more than 16 million businesses nationwide. It already includes more than 4,000 advertisers and more than 9,000 advertisements.

Big Yellow allows shoppers to compare and to retrieve "up-to-the minute, detailed information about any product or service in any geographic area," says NYNEX Information Resources, based in Auburn, Mass.

Advertisers can provide comprehensive information about their products and services, and they can target messages and offers to specific audiences through electronic messaging.

*Call 1-888-BIG-YELLOW (1-888-244-9355) for more information about the special offer for Chamber members.*

■ Workplace Initiative

# Business To Counter Unions

The U.S. Chamber of Commerce is establishing a coalition of companies, business groups, and other organizations to develop a national agenda for creating effective workplaces for the next century.

Called the Center On The 21st Century Workplace, the coalition will also counter the new militancy of organized labor.

The center will bring together leaders in workplace and employment policy—including business executives, academicians, futurists, and economists—to encourage discussion of the issues that must be addressed if U.S. workers are to keep up with advances in technology and U.S. businesses are to remain competitive in the global marketplace.

The center will co-host a conference on the challenges facing the 21st century work force and options for meeting those challenges, to be held at the Chamber's headquarters, in Washington, D.C., on May 1 from 2 to 5 p.m. Eastern time. Also co-hosting the event will be the National Policy Forum, a conservative research and education organization in Washington, D.C.

The conference will be broadcast by satellite to downlink sites around the country. (For more information about the conference or for the location of the downlink site nearest you, call 202-463-5604.)

Some of the problems already facing business, such as overly burdensome regulations and outdated labor laws, are currently being addressed by various members of Congress. But the progress they have made so far on these issues is being threatened, says R. Bruce Josten, the Chamber's senior vice president for membership policy.

**"The unions are attempting to return control of Congress to lawmakers who favor big government, big-government solutions, and big-government regulations."**
**—R. Bruce Josten**
**U.S. Chamber Of Commerce**




Organized labor is mounting an attack against the gains business has made since the GOP took control of Congress after the 1994 elections. Under the leadership of President John J. Sweeney, the AFL-CIO has pledged to spend $35 million for a campaign to unseat 75 pro-business lawmakers.

"The unions," says Josten, "are attempting to return control of Congress to lawmakers who favor big government, big-government solutions, and big-government regulations."

As part of its effort to counter the unions' attack, he says, the new center will distribute a book outlining important labor issues to state and local chambers of commerce and business associations.

The center also will urge business people to become more involved in the political process. Josten says that means supporting pro-business candidates with time and money and even running for elective office.

Organized labor has been the chief opponent of business-backed bills, including a balanced-budget amendment to the Constitution and legislation to improve federal regulations.

Those measures and others, Josten says, are needed to help improve the environment for business growth, which in turn would create jobs, improve workers' living standards, and keep U.S. companies globally competitive.

But the only way to achieve those goals, he says, is to have a majority pro-business Congress and a president who will support policies that benefit employees and employers.

"The U.S. Chamber," he says, "offers itself as a rallying point to resist the anti-business assault, to defend pro-business members of Congress, and to sustain the progress begun by the current Congress to make government smaller, more efficient, and more accountable."

## GOP Sets Workplace Principles

In a recent address at the U.S. Chamber, Rep. John A. Boehner, R-Ohio, detailed six principles by which he said congressional Republicans would abide in helping employers and employees to create successful workplaces for the next century.


Rep. Boehner

Boehner is chairman of the House Republican Conference. The principles are:

■ Individual opportunity. Enhance the economic opportunities of individuals by supporting education and job training that is free of government mandates.

■ Responsible standards. Define responsible standards through informed decisions in cooperation with those affected by the standards.

■ Empowerment. Allow employers and employees to make the decisions that affect their workplaces.

■ Balanced policy. Keep government from taking sides in resolving labor disputes, setting regulatory policies, or doling out research dollars.

■ Cooperation, not conflict. Allow employees and employers to work together to solve workplace issues.

■ Incentives. Provide incentives, rather than mandates and regulations, to encourage safe workplaces and other worker benefits.

■ Legislation

# Business Priorities Enacted

In a flurry of recent legislative activity, lawmakers approved and President Clinton signed a number of business-backed measures that were among the top priorities of the U.S. Chamber of Commerce.

The newly enacted laws are also among the goals that were set forth in the House Republicans' Contract With America. The new measures will help rein in excessive government regulations, give the president the authority to veto line items in tax and spending measures, and allow older Americans to earn more money without their Social Security benefits being reduced.

Congress also approved and the president signed legislation strongly supported by the Chamber to overhaul federal farm policy. (See Page 5A for details.)

Two of the victories related to the Contract came after House members attached measures dealing with regulation and the Social Security earnings limit to legislation they passed on March 28 to raise the federal debt ceiling. The Senate approved the bill the same day, and Clinton signed it into law March 29. The debt-ceiling increase allows the government to borrow money to meet its various financial obligations.

Congress also approved product-liability legislation, but Clinton indicated he would veto the bill. The liability legislation has been a priority of the Chamber for nearly 15 years and was also included in the Contract With America.

This is the first time both houses of Congress have passed such legislation.



PHOTO: CHERYL ALLEN

**U.S. Chamber board member and small-business owner Scott Holman, left, talks with Chamber regulation specialists Nancy Fulco and David Voight before testifying before the Senate Small Business Committee. Holman urged lawmakers to pass legislation to strengthen the Regulatory Flexibility Act. The legislation was signed into law March 29.**

Here's a summary of the measures signed into law by the president that were Chamber priorities and were also included in the Contract.

### Regulatory Restraint

The regulation-related measure enacted as part of the debt-ceiling legislation strengthens the Regulatory Flexibility Act of 1980. It also gives Congress authority to review major agency rules before they take effect.

The Regulatory Flexibility Act requires federal regulatory agencies to examine a proposed rule's effect on small business and to rewrite the regulation if it would have a significantly adverse impact.

Previously, agencies routinely ignored the law primarily because there was no recourse against them if they failed to abide by it.

The new law adds teeth to the act by allowing small firms to sue in federal court to ensure enforcement of the statute. It also establishes a regulatory ombudsman within the U.S. Small Business Administration to allow small companies to comment on federal agencies' compliance with the act and their application and enforcement of rules.

The law allows Congress to delay implementation of major regulations promulgated by agencies for 60 legislative days after final rules are drawn up.

Major rules are defined as those having an economic impact of more than $100 million. Congress could review such rules and vote to approve or disapprove them during the 60 days.

### Social Security Benefits

Another measure enacted as part of the debt-ceiling legislation increases significantly the amount of income retirees may earn before they begin losing Social Security benefits.

Under the previous law, individuals over 65 could earn up to $11,520 before they began losing benefits. They lost $1 in Social Security benefits for every $3 earned over that amount.

The new measure increases the earnings limit over seven years to $30,000. The limit will rise to $12,500 this tax year and increase by $1,000 a year until 2000, when the limit will reach $17,000; in 2001 it will rise to $25,000, and in 2002 the limit will increase to $30,000.

### Line-Item Veto

Beginning Jan. 1, the president will have the authority to strike from appropriations bills discretionary spending items and tax breaks that lose revenue and benefit fewer than 100 individuals or companies.

The House added the line-item-veto measure to the debt-ceiling bill on March 28. But it separated the veto from that bill after the Senate approved the line-item veto as separate legislation. The president signed the line-item veto into law on April 9.

Under the legislation, Congress will be able to reinstate any items eliminated by the president by passing a bill to do so. The president could veto that bill, but Congress could override the veto with a two-thirds majority vote in each house.

The line-item-veto law is scheduled to run through Dec. 31, 2004.

■ Big Victory

# Chamber-Backed Law Ends Farm Controls

The U.S. Chamber of Commerce won a major victory with the enactment in April of a new farm law that frees millions of previously idled acres of land for crop production.



Rep. Pat Roberts, R-Kan.

The statute eliminates the old law's acreage-idling program and gives farmers control over all planting decisions. Under the acreage-control program, the U.S. Agriculture Department determined which and how many acres should be idled. The new law also replaces so-called deficiency payments to farmers with fixed payments that will be phased out over seven years.

Under the farm law that had been in effect since 1990—the last time the agriculture statute was reauthorized—the government set target prices for certain crops. If market prices fell below the target prices, farmers received a deficiency payment from the government.

Corn, rice, soybeans, feed grains, wheat, and cotton were eligible for the deficiency payment and other programs, such as marketing loans. To participate in them, farmers had to abide by government regulations.

Under the new payment plan, farmers who participated in the crop programs at any time in the past five years will receive fixed, government-set payments on a declining schedule for seven years. Farmers who had not taken part previously will be ineligible for such payments.

The new law is expected to save the federal government about $10 billion over its existing spending on farm programs by the year 2000.

Also, by putting planting decisions in the hands of farmers, the U.S. will be better able to help meet the growing global food demand, says Stuart Hardy, the Chamber's food-industry specialist.

The new farm law was approved by Congress in late March and signed by President Clinton April 4. The legislation is the product of an agreement reached by a House-Senate conference committee in March on bills sponsored by Sen. Richard G. Lugar, R-Ind., and Rep. Pat Roberts, R-Kan.

■ Tax Limits



U.S. Chamber Vice President and Chief Economist Martin A. Regalia, at the dais, voices the business federation's support for legislation that would amend the Constitution to require a two-thirds majority vote of Congress to raise taxes. The House was expected to vote on the measure, sponsored by Rep. Joe Barton, R-Texas, left, and Sen. Jon L. Kyl, R-Ariz., (not shown here) after lawmakers returned from a two-week recess. No date had been set for Senate action.

■ Workplace

# Senate To Vote On TEAM Act

Legislation to allow employees to have a voice in workplace decisions is expected to be voted on by the Senate in early May.

The measure, titled the Teamwork for Employees and Management Act, or TEAM Act, is similar to a bill passed by the House and is strongly backed by the U.S. Chamber of Commerce.

The legislation would amend the 1935 National Labor Relations Act to allow nonunion employers to establish self-directed employee teams to address various workplace issues of importance to labor and management.

Sponsored by Sen. Nancy Kassebaum, R-Kan., chairman of the Senate Labor and Human Resources Committee, the bill, S. 295, was expected to be approved by that panel in mid-April. Meanwhile, the Senate Small Business Committee was expected to hold a hearing on the measure.

The similar House bill, sponsored by Rep. Steve Gunderson, R-Wis., was approved late last year by a vote of 221-202.

The House and Senate measures were introduced in response to interpretations of the 1935 labor law by the National Labor Relations Board, which administers the labor-relations statute, and by the federal courts. The NLRB and the courts have ruled in recent years that the 1935 law makes it illegal for employee teams or committees in nonunion businesses to discuss issues such as scheduling, work assignments, and health and safety matters. The TEAM Act would overturn those rulings.

Organized labor is making defeat of the TEAM Act a top priority. President Clinton recently pledged to veto the measure if Congress approves it.

## Labor Costs

# Wage Hike Efforts Fail In Congress

In victories for business, two recent attempts in Congress to raise the federal minimum wage were defeated.

Sen. Edward M. Kennedy, D-Mass., tried to bring to a vote in the Senate a bill that would raise the minimum wage, currently $4.25 an hour, to $5.15 an hour by July 4, 1997. But his effort was defeated when senators refused to cut off debate on the measure. The vote to end the filibuster was 55-45; 60 votes are required.

House proponents of increasing the minimum wage, led by Minority Leader Richard A. Gephardt, D-Mo., tried to attach a wage amendment to legislation raising the debt limit. The House measure, like the Senate's, would raise the rate to $5.15 over two years through yearly 45-cent hikes; the measure was defeated 228-192.

Backers of the wage increase vowed to continue efforts to pass such legislation, while the U.S. Chamber of Commerce said it would continue its opposition.

The Chamber has continually fought efforts to raise the minimum wage, citing numerous studies that show that job losses result whenever the minimum wage is increased.

"The minimum wage, if increased, will cause massive job losses and will price out of the market those people who most need jobs," says Peter Eide, the Chamber's manager of labor-law policy.

Increasing the wage rate is a top priority of both organized labor and the Clinton administration.



Members of the community-activist organization ACORN—Association of Concerned Citizens for Reform Now—protest for a higher federal minimum wage in the lobby of the U.S. Chamber.

## Regulation



Andy Hines, vice president of Emerald Green LawnCare, of Athens, Ga., testified recently before the House Committee on Small Business on behalf of the U.S. Chamber. He urged Congress to pay more attention to the U.S. Environmental Protection Agency's failure to rein in unnecessary regulations and paperwork requirements that burden businesses.

## Trade

# Chamber Plans Export Events

The International Division of the U.S. Chamber of Commerce is hosting two conferences in May and June on opportunities in international trade and investment.

The first, "Forecast On Latin America: A Business Perspective," on May 8 at the Chamber's headquarters in Washington, D.C., will focus on telecommunications, infrastructure, and financial/capital markets in Latin America.

It will feature forecasts and prognoses for economic changes and growth in Latin American markets from companies already doing business there.

The event is sponsored by the Association of American Chambers of Commerce in Latin America, an affiliate of the U.S. Chamber.

The second conference, "India-Vision 2000," will examine the future of information-technology and telecommunications markets in India. The June 13 conference, also at the Chamber's headquarters, is sponsored by the U.S.-India Business Council—another affiliate of the Chamber—and New York-based accounting and consulting firm Coopers & Lybrand L.L.P.

In other efforts to help U.S. companies succeed abroad, the Chamber also has produced a variety of publications. They include guides to doing business in Asia, Europe, and Latin America; directories of the leading corporations in various countries; and listings of American chambers of commerce overseas, foreign chambers in America, and local chambers across the U.S. that provide international-trade services.

*For more information about the upcoming conferences or to obtain a brochure including the complete publications list, call the International Division at (202) 463-5460.*

GAIN UPDATE
GRASSROOTS ACTION INFORMATION NETWORK
U.S. Chamber of Commerce Federation

# Comp-Time Issue Faces Votes In Committees

*Legislation Would Allow Employers To Grant Time Off In Lieu Of Overtime Pay*

The U.S. Chamber of Commerce is urging congressional panels to approve legislation that would give private-sector workers the flexibility to choose compensatory leave in lieu of pay for overtime work.

The measures before the House Economic and Educational Opportunities Committee and the Senate Labor and Human Resources Committee would amend one of the nation's oldest labor statutes, the Fair Labor Standards Act (FLSA).

The 1938 statute mandates overtime pay amounting to time and a half for each hour above 40 worked weekly by hourly employees. The law also contains other wage-related requirements.

The bills pending in Congress are H.R. 2391, sponsored by Rep. Cass Ballenger, R-N.C., and S. 1129, sponsored by Sen. John Ashcroft, R-Mo. They would allow employers to grant hourly workers time off — provided the workers consent — rather than immediate pay for overtime work. Compensatory leave would accrue at the rate of 1.5 hours for each hour of overtime worked.

Congress provided federal and other public-sector employers with the compensatory-time option in 1985.

"Society has changed a lot in the 58 years since the FLSA was enacted," notes Robert Raasch, associate manager of labor-law policy for the Chamber.

"There are many, many times more two-income families now than there were back then. To a large proportion of these families, the ability to take unscheduled time off to tend to family matters such as sick children is more valuable than cold, hard cash. Business people should be permitted to assist their employees by providing compensatory time off as an option."

In support of the Chamber's position, Raasch cites a survey conducted in 1995 by the Women's Bureau of the U.S. Department of Labor. The survey found that the top concern of working women was flexibility in work schedules.

"Presently, employees have little of this desired flexibility," Raasch says. "In order for hourly employees to take a few hours off without affecting their paychecks now, they have to use annual leave or make up the time off during the same workweek. This is often difficult to do, especially when the need for time off arises unexpectedly."



A recent poll conducted by the research firm Penn & Schoen Associates, of New York and Washington, D.C., found that 75 percent of the American public would favor allowing hourly employees to choose between receiving time and a half in wages or equivalent time off with pay.

The poll was conducted for the Employment Policy Foundation, a Washington-based organization that does research and education on labor issues.

Organized labor, however, asserts that if the Ballenger and Ashcroft legislation were enacted, some employers would coerce workers into taking comp time in lieu of overtime pay. The legislation would mark the beginning of the end of the 40-hour workweek, the unions argue.

"These scare arguments are false," says Raasch. The legislation's calculations for overtime are based on the FLSA's language regarding the 40-hour workweek, he says.

Furthermore, Raasch notes, if the unions' prediction of the demise of the 40-hour workweek were true, such a trend already would have begun in the public sector, where comp-time plans are allowed.

*Call or write the House and Senate committees considering H.R. 2391 and S. 1129 and urge that the measures be considered immediately. Contact the House panel at (202) 225-4527 or 2181 Rayburn House Office Building, Washington, D.C. 20515. Contact the Senate panel at (202) 224-5375 or 428 Dirksen Senate Office Building, Washington, D.C. 20510.*

## How You Can Join GAIN

**The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, U.S. Chamber specialists on legislative and regulatory issues provide activist business people with the timely and thorough information they need to urge their members of Congress to cast pro-enterprise votes.**

**For more information on how to become a member of this network, call (202) 463-5604.**

GAIN UPDATE

# Write Your Lawmakers About Their Votes On Critical Product-Liability Legislation

Thank your representative and senators if they voted for the product-liability bill crafted by a House-Senate conference committee. Express your disapproval if they voted against it, the U.S. Chamber of Commerce advises.

For more than 15 years, the Chamber has sought passage and enactment of a measure to pre-empt the 50 state product-liability statutes. This year marks the first time both houses of Congress have approved such a bill.

The final version of the measure, H.R. 956, was produced by a Senate-House conference committee, working with different bills passed by the House and Senate. The Senate then approved the conference measure by a vote of 59-40 on March 21; the House passed the conference bill 259-158 on March 29. At press time, President Clinton had threatened to veto the legislation.

The liability legislation would:

- Provide incentives for quicker settlements of product-liability lawsuits.
- Encourage speedier compensation for injured parties and reduced legal costs for plaintiffs and defendants.
- Limit the liability of wholesalers and retailers who inadvertently sell defective products.
- Limit punitive damages in some cases.

(See Page 4A for more details on the legislation.)

The address for senators is U.S. Senate, Washington, D.C. 20510; for representatives, it's U.S. House of Representatives, Washington, D.C. 20515.

## HOUSE

### VOTED FOR PASSAGE

**ALABAMA**
1 Callahan (R)
2 Everett (R)
3 Browder (D)
5 Cramer (D)
6 Bachus (R)

**ALASKA**
Young (R)

**ARIZONA**
1 Salmon (R)
3 Stump (R)
4 Shadegg (R)
5 Kolbe (R)
6 Hayworth (R)

**ARKANSAS**
1 Lincoln (D)
3 Hutchinson (R)
4 Dickey (R)

**CALIFORNIA**
1 Riggs (R)
2 Herger (R)
4 Doolittle (R)
10 Baker (R)
11 Pombo (R)
15 Campbell (R)
18 Condit (D)
19 Radanovich (R)
20 Dooley (D)
21 Thomas (R)
22 Seastrand (R)
23 Gallegly (R)
25 McKeon (R)
27 Moorhead (R)
28 Dreier (R)
36 Harman (D)
38 Horn (R)
39 Royce (R)
40 Lewis (R)
41 Kim (R)
43 Calvert (R)
44 Bono (R)
45 Rohrabacher (R)
46 Dornan (R)
47 Cox (R)
48 Packard (R)
49 Bilbray (R)
51 Cunningham (R)
52 Hunter (R)

**COLORADO**
3 McInnis (R)
4 Allard (R)
5 Hefley (R)
6 Schaefer (R)

**CONNECTICUT**
1 Kennelly (D)
4 Shays (R)
5 Franks (R)
6 Johnson (R)

**DELAWARE**
Castle (R)

**FLORIDA**
1 Scarborough (R)
2 Peterson (D)
6 Stearns (R)
7 Mica (R)
8 McCollum (R)
9 Bilirakis (R)
10 Young (R)
12 Canady (R)
13 Miller (R)
14 Goss (R)
15 Weldon (R)
16 Foley (R)
18 Ros-Lehtinen (R)
22 Shaw (R)

**GEORGIA**
1 Kingston (R)
3 Collins (R)
4 Linder (R)
7 Barr (R)
8 Chambliss (R)
9 Deal (R)
10 Norwood (R)

**IDAHO**
1 Chenoweth (R)
2 Crapo (R)

**ILLINOIS**
5 Flanagan (R)
6 Hyde (R)
8 Crane (R)
10 Porter (R)
13 Fawell (R)
14 Hastert (R)
15 Ewing (R)
16 Manzullo (R)
18 LaHood (R)

**INDIANA**
2 McIntosh (R)
3 Roemer (D)
4 Souder (R)
5 Buyer (R)
6 Burton (R)
7 Myers (R)
8 Hostettler (R)
9 Hamilton (D)

**IOWA**
1 Leach (R)
2 Nussle (R)
3 Lightfoot (R)
4 Ganske (R)
5 Latham (R)

**KANSAS**
1 Roberts (R)
2 Brownback (R)
3 Meyers (R)
4 Tiarht (R)

**KENTUCKY**
1 Whitfield (R)
2 Lewis (R)
4 Bunning (R)
5 Rogers (R)

**LOUISIANA**
1 Livingston (R)
3 Tauzin (R)
5 McCrery (R)
6 Baker (R)

**MAINE**
1 Longley (R)

**MARYLAND**
1 Gilchrest (R)
2 Ehrlich (R)
6 Bartlett (R)
8 Morella (R)

**MASSACHUSETTS**
3 Blute (R)
6 Torkildsen (R)

**MICHIGAN**
2 Hoekstra (R)
3 Ehlers (R)
4 Camp (R)
5 Barcia (D)
6 Upton (R)
7 Smith (R)
8 Chrysler (R)
11 Knollenberg (R)
16 Dingell (D)

**MINNESOTA**
1 Gutknecht (R)
2 Minge (D)
3 Ramstad (R)
7 Peterson (D)

**MISSISSIPPI**
1 Wicker (R)
3 Montgomery (D)
4 Parker (R)
5 Taylor (D)

**MISSOURI**
2 Talent (R)
7 Hancock (R)
8 Emerson (R)

**NEBRASKA**
1 Bereuter (R)
2 Christensen (R)
3 Barrett (R)

**NEVADA**
1 Ensign (R)
2 Vucanovich (R)

**NEW HAMPSHIRE**
1 Zeliff (R)
2 Bass (R)

**NEW JERSEY**
2 Lobiondo (R)
3 Saxton (R)
4 Smith (R)
5 Roukema (R)
7 Franks (R)
11 Frelinghuysen (R)
12 Zimmer (R)

**NEW MEXICO**
1 Schiff (R)
2 Skeen (R)

# GAIN UPDATE

**NEW YORK**
1 Forbes (R)
2 Lazio (R)
4 Frisa (R)
13 Molinari (R)
19 Kelly (R)
22 Solomon (R)
23 Boehlert (R)
24 McHugh (R)
25 Walsh (R)
27 Paxon (R)
28 Slaughter (D)
30 Quinn (R)
31 Houghton (R)

**NORTH CAROLINA**
2 Funderburk (R)
3 Jones (R)
4 Heineman (R)
5 Burr (R)
8 Hefner (D)
9 Myrick (R)
10 Ballenger (R)
11 Taylor (R)

**OHIO**
1 Chabot (R)
2 Portman (R)
3 Hall (D)
4 Oxley (R)
5 Gillmor (R)
6 Cremeans (R)
7 Hobson (R)
8 Boehner (R)
9 Kaptur (D)
10 Hoke (R)
12 Kasich (R)
15 Pryce (R)
16 Regula (R)
18 Ney (R)
19 LaTourette (R)

**OKLAHOMA**
1 Largent (R)
2 Coburn (R)
3 Brewster (D)
4 Watts (R)
5 Istook (R)
6 Lucas (R)

**OREGON**
2 Cooley (R)
5 Bunn (R)

**PENNSYLVANIA**
5 Clinger (R)
6 Holden (D)
8 Greenwood (R)
9 Shuster (R)
10 McDade (R)
13 Fox (R)
16 Walker (R)
17 Gekas (R)
19 Goodling (R)
21 English (R)

**RHODE ISLAND**
2 Reed (D)

**SOUTH CAROLINA**
1 Sanford (R)
2 Spence (R)
3 Graham (R)
4 Inglis (R)
5 Spratt (D)

**TENNESSEE**
1 Quillen (R)
2 Duncan (R)
3 Wamp (R)
4 Hilleary (R)
5 Clement (D)
6 Gordon (D)
7 Bryant (R)
8 Tanner (D)

**TEXAS**
3 Johnson (R)
4 Hall (D)
6 Barton (R)
7 Archer (R)
9 Stockman (R)
13 Thornberry (R)
14 Laughlin (R)
11 Edwards (D)
12 Geren (D)
17 Stenholm (D)
19 Combest (R)
22 DeLay (R)
23 Bonilla (R)
26 Armey (R)

**UTAH**
1 Hansen (R)
2 Waldholtz (R)

**VIRGINIA**
1 Bateman (R)
4 Sisisky (D)
5 Payne (D)
6 Goodlatte (R)
7 Bliley (R)
8 Moran (D)
9 Boucher (D)
10 Wolf (R)
11 Davis (R)

**WASHINGTON**
1 White (R)
2 Metcalf (R)
3 Smith (R)
4 Hastings (R)
5 Nethercutt (R)
8 Dunn (R)
9 Tate (R)

**WISCONSIN**
1 Neumann (R)
2 Klug (R)
3 Gunderson (R)
6 Petri (R)
8 Roth (R)
9 Sensenbrenner (R)

**WYOMING**
Cubin (R)

## VOTED AGAINST PASSAGE

**ALABAMA**
4 Bevill (D)
7 Hilliard (D)

**ARIZONA**
2 Pastor (D)

**ARKANSAS**
2 Thornton (D)

**CALIFORNIA**
3 Fazio (D)
5 Matsui (D)
6 Woolsey (D)
7 Miller (D)
8 Pelosi(D)
9 Dellums (D)
12 Lantos (D)
13 Stark (D)
16 Lofgren (D)
17 Farr (D)
24 Bellenson (D)
26 Berman (D)
29 Waxman (D)
30 Becerra (D)
31 Martinez (D)
32 Dixon (D)
33 Roybal (D)
35 Waters (D)
42 Brown (D)
50 Filner (D)

**COLORADO**
1 Schroeder (D)
2 Skaggs (D)

**CONNECTICUT**
2 Gejdenson (D)
3 DeLauro (D)

**FLORIDA**
3 Brown (D)
5 Thurman (D)
11 Gibbons (D)
17 Meek (D)
19 Johnston (D)
20 Deutsch (D)
21 Diaz-Balart (D)
23 Hastings (D)

**GEORGIA**
2 Bishop (D)
5 Lewis (D)
11 McKinney (D)

**HAWAII**
1 Abercrombie (D)
2 Mink (D)

**ILLINOIS**
1 Rush (D)
2 Jackson (D)
3 Lipinski (D)
4 Gutierrez (D)
9 Yates (D)
12 Costello (D)
17 Evans (D)
19 Poshard (D)
20 Durbin (D)

**INDIANA**
1 Visclosky (D)
10 Jacobs (D)

**KENTUCKY**
3 Ward (D)
6 Baesler (D)

**LOUISIANA**
2 Jefferson (D)
4 Fields (D)

**MAINE**
2 Baldacci (D)

**MARYLAND**
3 Cardin (D)
4 Wynn (D)
5 Hoyer (D)

**MASSACHUSETTS**
1 Olver (D)
2 Neal (D)
4 Frank (D)
5 Meehan (D)
7 Markey (D)
8 Kennedy (D)
9 Moakley (D)
10 Studds (D)

**MICHIGAN**
1 Stupak (D)
9 Kildee (D)
10 Bonior (D)
12 Levin (D)
13 Rivers (D)
14 Conyers (D)
15 Collins (D)

**MINNESOTA**
4 Vento (D)
5 Sabo (D)
6 Luther (D)
8 Oberstar (D)

**MISSISSIPPI**
2 Thompson (D)

**MISSOURI**
1 Clay (D)
3 Gephardt (D)
4 Skelton (D)
5 McCarthy (D)
6 Danner (D)
9 Volkmer (D)

**MONTANA**
Williams (D)

**NEW JERSEY**
1 Andrews (D)
6 Pallone (D)
8 Martini (R)
9 Torricelli (D)
10 Payne (D)
13 Menendez (D)

**NEW MEXICO**
3 Richardson (D)

**NEW YORK**
3 King (R)
5 Ackerman (D)
6 Flake (D)
7 Manton (D)
8 Nadler (D)
9 Schumer (D)
10 Towns (D)
11 Owens (D)
12 Velazquez (D)
14 Maloney (D)
15 Rangel (D)
16 Serrano (D)
17 Engel (D)
18 Lowey (D)
20 Gilman (R)
26 Hinchey (D)
29 LaFalce (D)

**NORTH CAROLINA**
1 Clayton (D)
6 Coble (R)
7 Rose (D)
12 Watt (D)

**NORTH DAKOTA**
Pomeroy (D)

**OHIO**
13 Brown (D)
14 Sawyer (D)
17 Traficant (D)

**OREGON**
1 Furse (D)
4 DeFazio (D)

**PENNSYLVANIA**
1 Foglietta (D)
2 Fattah (D)
3 Borski (D)
4 Klink (D)
11 Kanjorski (D)
12 Murtha (D)
14 Coyne (D)
15 McHale (D)
18 Doyle (D)
20 Mascara (D)

**RHODE ISLAND**
1 Kennedy (D)

**SOUTH CAROLINA**
6 Clyburn (D)

**SOUTH DAKOTA**
Johnson (D)

# GAIN UPDATE

**TEXAS**
1 Chapman (D)
2 Wilson (D)
10 Doggett (D)
16 Coleman (D)
18 Jackson Lee (D)
20 Gonzalez (D)
24 Frost (D)
25 Bentsen (D)
27 Ortiz (D)
28 Tejeda (D)
29 Green (D)
30 Johnson (D)

**UTAH**
3 Orton (D)

**VERMONT**
Sanders (I)

**VIRGINIA**
2 Pickett (D)
3 Scott (D)

**WASHINGTON**
6 Dicks (D)
7 McDermott (D)

**WEST VIRGINIA**
1 Mollohan (D)
2 Wise (D)
3 Rahall (D)

**WISCONSIN**
4 Kleczka (D)
5 Barrett (D)
7 Obey (D)

**DID NOT VOTE OR VOTED "PRESENT"**

**CALIFORNIA**
14 Eshoo (D)
34 Torres (D)

**FLORIDA**
4 Fowler (R)

**GEORGIA**
6 Gingrich (R)

**ILLINOIS**
7 Collins (D)
11 Weller (R)

**LOUISIANA**
7 Hayes (R)

**NEW YORK**
21 McNulty (D)

**OHIO**
11 Stokes (D)

**PENNSYLVANIA**
7 Weldon (R)

**TENNESSEE**
9 Ford (D)

**TEXAS**
5 Bryant (D)
8 Fields (R)
15 de la Garza (D)
21 Smith (R)

## SENATE

**VOTED FOR PASSAGE**

**ALASKA**
Murkowski (R)
Stevens (R)

**ARIZONA**
Kyl (R)
McCain (R)

**ARKANSAS**
Pryor (D)

**COLORADO**
Brown (R)
Campbell (R)

**CONNECTICUT**
Dodd (D)
Lieberman (D)

**FLORIDA**
Mack (R)

**GEORGIA**
Coverdell (R)
Nunn (D)

**IDAHO**
Craig (R)
Kempthorne (R)

**ILLINOIS**
Moseley-Braun (D)

**INDIANA**
Coats (R)
Lugar (R)

**IOWA**
Grassley (R)

**KANSAS**
Dole (R)
Kassebaum (R)

**KENTUCKY**
McConnell (R)

**LOUISIANA**
Johnston (D)

**MAINE**
Snowe (R)

**MICHIGAN**
Abraham (R)

**MINNESOTA**
Grams (R)

**MISSISSIPPI**
Cochran (R)
Lott (R)

**MISSOURI**
Ashcroft (R)
Bond (R)

**MONTANA**
Burns (R)

**NEBRASKA**
Exon (D)

**NEW HAMPSHIRE**
Gregg (R)
Smith (R)

**NEW MEXICO**
Domenici (R)

**NORTH CAROLINA**
Faircloth (R)
Helms (R)

**NORTH DAKOTA**
Dorgan (D)

**OHIO**
DeWine (R)
Glenn (D)

**OKLAHOMA**
Inhofe (R)
Nickles (R)

**OREGON**
Hatfield (R)

**PENNSYLVANIA**
Santorum (R)

**RHODE ISLAND**
Chafee (R)
Pell (D)

**SOUTH CAROLINA**
Thurmond (R)

**SOUTH DAKOTA**
Pressler (R)

**TENNESSEE**
Frist (R)
Thompson (R)

**TEXAS**
Gramm (R)
Hutchison (R)

**UTAH**
Bennett (R)
Hatch (R)

**VERMONT**
Jeffords (R)

**VIRGINIA**
Warner (R)

**WASHINGTON**
Gorton (R)

**WEST VIRGINIA**
Rockefeller (D)

**WISCONSIN**
Kohl (D)

**WYOMING**
Thomas (R)

**VOTED AGAINST PASSAGE**

**ALABAMA**
Heflin (D)
Shelby (R)

**ARKANSAS**
Bumpers (D)

**CALIFORNIA**
Boxer (D)
Feinstein (D)

**DELAWARE**
Biden (D)
Roth (R)

**FLORIDA**
Graham (D)

**HAWAII**
Akaka (D)
Inouye (D)

**ILLINOIS**
Simon (D)

**IOWA**
Harkin (D)

**KENTUCKY**
Ford (D)

**LOUISIANA**
Breaux (D)

**MAINE**
Cohen (R)

**MARYLAND**
Mikulski (D)
Sarbanes (D)

**MASSACHUSETTS**
Kennedy (D)
Kerry (D)

**MICHIGAN**
Levin (D)

**MINNESOTA**
Wellstone (D)

**MONTANA**
Baucus (D)

**NEVADA**
Bryan (D)
Reid (D)

**NEW JERSEY**
Bradley (D)
Lautenberg (D)

**NEW MEXICO**
Bingaman (D)

**NEW YORK**
D'Amato (R)
Moynihan (D)

**NORTH DAKOTA**
Conrad (D)

**OREGON**
Wyden (D)

**PENNSYLVANIA**
Specter (R)

**SOUTH CAROLINA**
Hollings (D)

**SOUTH DAKOTA**
Daschle (D)

**VERMONT**
Leahy (D)

**VIRGINIA**
Robb (D)

**WASHINGTON**
Murray (D)

**WEST VIRGINIA**
Byrd (D)

**WISCONSIN**
Feingold (D)

**WYOMING**
Simpson (R)

**DID NOT VOTE**

**NEBRASKA**
Kerrey (D)

■ Capitol Hill

# Health-Care Legislation Advances

Legislation backed by the U.S. Chamber of Commerce to improve the nation's health-care system passed the House recently, and a similar bill was scheduled for Senate action in mid-April.

The House bill, crafted by the chairmen of several committees and subcommittees and approved 267-151, would:

■ Allow workers to carry their health insurance from job to job.

■ Limit the use of pre-existing-condition exclusions by insurers to deny coverage to people with health problems.

■ Pre-empt state benefit laws for groups of small firms, which would allow them to purchase health insurance free from state mandates.

■ Increase in the year 2003 the health-insurance tax deduction for the self-employed and unincorporated businesses to 50 percent from the current 30 percent.

■ Limit medical malpractice compensatory damages—awards for pain and suffering—to $250,000.

■ Allow individuals to establish tax-free medical savings accounts to pay for medical expenses.

The Senate bill, sponsored by Sens. Nancy Kassebaum, R-Kan., and Edward M. Kennedy, D-Mass., would allow workers to continue health coverage from one job to the next, require health coverage for people with pre-existing medical conditions, and make certain small-market reforms, such as requiring insurers to renew health policies.

At press time, the Senate debate was scheduled for April 18 and 19. The Chamber was working to defeat possible amendments that would make the bill unacceptable to business. Those potential amendments included restrictions on insurers' ability to limit the health expenses for which an individual may be reimbursed in his or her lifetime.

■ IBEX

# Trade System Growing

The International Business Exchange, the electronic trading system of the U.S. Chamber of Commerce, continues to grow in size and scope.

The system, known as IBEX, helps participating companies locate—through Dun & Bradstreet's database of 14 million firms worldwide—qualify, and negotiate domestic and international trade and investment opportunities. A user can negotiate terms of transactions, check credit information, and close deals from a personal computer equipped with a modem.



"IBEX already has more than 1,200 subscribers, and it continues to gather market momentum," says Mark Van Fleet, the system's manager. There are IBEX subscribers in 17 countries. More than 20 local chambers of commerce and other organizations are marketing the system in the U.S.

The system, which began operation last fall, recently established a customer-care unit to help users match their buy, sell, and investment offers via a number of other commercial databases.

IBEX also is developing a version of its software for use on the global computer network known as the Internet. The new software is scheduled for release by the end of the year, and current IBEX subscribers will receive it free upon request.

The IBEX system was developed by the Global Business Alliance and is backed by AT&T, Dun & Bradstreet, GE Information Services, Chase Manhattan Bank, Simon & Schuster, and Digital Equipment Corp. It is sponsored and marketed by the Chamber.

*For more information about IBEX and a free trial of the system, call 1-800-537-4239.*

■ Communication

# Court Upholds Chamber Win

The U.S. Chamber of Commerce has again prevailed in its lawsuit challenging Federal Election Commission rules that prohibited the business federation from communicating with its members on political matters.

The latest victory came in an 11-0 decision by the U.S. Court of Appeals for the District of Columbia Circuit, in Washington, D.C. On March 1, the court threw out a petition from the FEC requesting a rehearing of an earlier ruling in favor of the Chamber.

The Chamber suit challenged FEC criteria for determining who constitutes a "member" of an organization for purposes of political communications.

Under an FEC rule adopted in November 1993, a member of an organization was defined as a person who has a "significant" investment or ownership stake in an organization, who can vote for at least one member of the organization's board or governing body, or who can vote directly for all board members. (The Chamber's bylaws require incumbent members of the organization's board of directors to elect new board members as vacancies occur.) The FEC did not define "significant" investment.

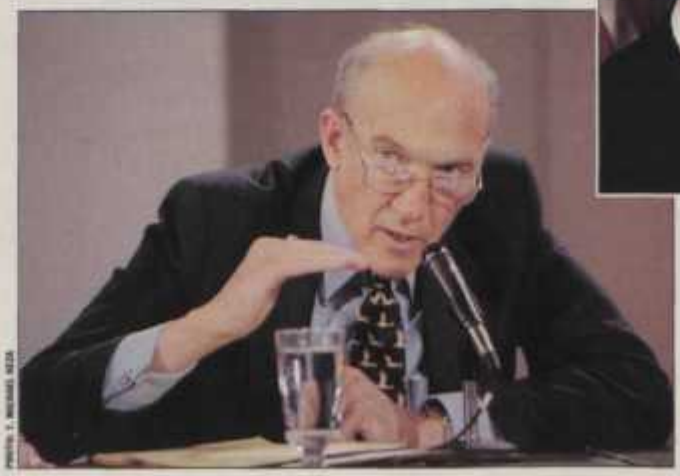
If any of an organization's members did not meet at least one of the new criteria, the organization could not disseminate political information to those members.

The Chamber had argued that the FEC rule violated the organization's rights of free speech and association under the First Amendment and its rights of due process under the Fifth Amendment.

■ Immigration

# Cuts In Worker Visas Removed From Bills





Immigration legislation sponsored by Sen. Alan K. Simpson, R-Wyo., left, and Rep. Lamar Smith, R-Texas, above, was stripped of language that would have cut business-sponsored visas for legal immigrants.

As federal immigration legislation continued to evolve, the U.S. Chamber of Commerce helped to persuade lawmakers in the House and members of the Senate Judiciary Committee to remove provisions on legal immigration from comprehensive House and Senate bills.

The House voted 238-183 on March 21 to delete such provisions from legislation sponsored by Rep. Lamar Smith, R-Texas, and it then approved the revised bill 333-87.

In mid-March, the Senate Judiciary Committee voted to split into two bills—one related to legal immigration and the other to illegal—comprehensive legislation sponsored by Sen. Alan K. Simpson, R-Wyo. Later in the month, the committee approved both bills.

The provisions removed from the comprehensive bills would have drastically cut the number of business-sponsored and other visas for foreigners entering the U.S. legally.

The House-passed bill and the illegal-immigration bill pending in the Senate would strengthen efforts to stem the flow of illegal immigrants into the U.S. The measures also would make illegal aliens ineligible for nearly all federal, state, and local benefits, such as welfare and Medicare.

While the separate Senate bills were expected to move to the Senate floor for votes when Congress returned in mid-April from a two-week recess, the chances for passage of the legal-immigration legislation were diminished by the uncoupling of the measures.

The Senate is expected to pass soon the measure dealing with illegal immigration.

Neither the House-passed bill nor the Senate legal-immigration bill would cut the 140,000 visas allotted annually to business-sponsored immigrants. But both measures contain some provisions opposed by the Chamber that deal with employment-related visas.

For example, both bills would place new restrictions on employers seeking temporary visas—called H-1B visas—for foreign workers with specialized skills. The Chamber opposes the proposed rules.

The House legislation also would require an employer who hires an H-1B worker to pay the new employee at least 110 percent of the wage of the employer's U.S. workers in equivalent jobs—a requirement also opposed by the Chamber.

In the Senate, the Judiciary Committee stripped a similar provision from its legal-immigration reform bill but left in the measure a provision to eliminate 10,000 visas for unskilled foreign workers sponsored by U.S. businesses.

■ Conference




House Small Business Committee Chairman Jan Meyers, R-Kan., and James A. Dobkin, chairman of the U.S. Chamber's Privatization Ad Hoc Group, addressed a recent conference on privatization held at the Chamber. The two discussed opportunities for business as government agencies "downsize" in the face of budget cuts. The privatization group will promote greater private-sector involvement in providing the government with goods and services.

## NAFTA



Edwin Lupberger, center, the U.S. Chamber's chairman for 1996-97, recently met with Gary Campbell, left, chairman of the Canadian Chamber of Commerce, and German A. Gonzalez, chairman of Concanaco-Servytur—Mexico's Confederation of Chambers of Commerce of Services and Tourism. The purpose of the meeting, in Hermosillo, Mexico, was to discuss progress in implementing the North American Free Trade Agreement.

## OSHA

# Chamber Urges Overhaul

The U.S. Chamber of Commerce is urging members of the House and Senate to act on measures that would overhaul the Occupational Safety and Health Act of 1970.

Different bills are awaiting action by the full Senate and by the House Economic and Educational Opportunities Subcommittee on Workforce Protections.

Both bills would allow companies to set up their own safety- and health-improvement plans subject to compliance checks by certified independent inspectors. The measures would eliminate the portion of the federal law that requires the Occupational Safety and Health Administration to respond to all workplace safety and health complaints from employees. The bills would also eliminate penalties for certain minor violations of the act, such as some paperwork errors.

The Senate measure, sponsored by Sen. Judd Gregg, R-N.H., was approved March 5 by the Labor and Human Resources Committee.



Rep. Ballenger

The broader House bill is sponsored by Rep. Cass Ballenger, R-N.C. It would reserve 50 percent of OSHA funds for consultation, training, education, and compliance-assistance programs. It would also require OSHA to conduct for each proposed workplace rule a study of the economic impact of the regulation, an assessment of the risks that the rule seeks to reduce or eliminate relative to other risks, and a cost-benefit analysis.

Reform legislation is needed, says the Chamber, to counter recent proposed administrative changes by the Labor Department in the current safety and health act. The changes, including rules on indoor-air quality, would add to the regulatory burden placed on business, the Chamber says.

*Call your senators and representative and urge them to approve the Gregg and Ballenger bills to improve workplace safety and health. Lawmakers can be reached through the Capitol switchboard at (202) 224-3121.*

## Striker Replacements

# Ruling On Directive Challenged

The Clinton administration has not given up trying to reverse a U.S. Chamber of Commerce court victory against a presidential executive order that barred the awarding of most government contracts to firms that have permanently replaced striking workers.

The administration filed a petition March 18 requesting that the full 11-judge U.S. Court of Appeals for the District of Columbia Circuit, in Washington, reconsider a Feb. 2 decision that went in the Chamber's favor.

In the decision, a three-judge panel of the appeals court ruled that President Clinton's order "is regulatory in nature and is pre-empted by the National Labor Relations Act, which guarantees the right to hire permanent replacements."

The 60-year-old labor-relations statute, which governs U.S. labor-management relations, allows employers to replace workers who strike over economic conditions, such as wages or benefits.

Clinton's directive, which took effect immediately after it was issued on March 8, 1995, prohibited federal agencies from awarding federal contracts valued at more than $100,000 to companies that had permanently replaced workers who were on strike for economic reasons.

The Chamber, backed by other business groups, asked the U.S. District Court for the District of Columbia to bar federal contract officials from implementing the order. But in early May of last year, the District Court rejected the petition. The Chamber immediately appealed the decision to the Court of Appeals, which the following month ordered the District Court to review the case.

On July 31, the District Court blocked enforcement of the order, agreeing with the Chamber and other business plaintiffs that the order would unduly harm many firms contracting with the federal government. However, the court rejected arguments that the order violated the labor-relations act.

The Chamber's appeal to the Court of Appeals on whether the order violated the labor law resulted in the Feb. 2 ruling in the Chamber's favor.

■ Legal Actions

# High Court Cases Pending

The National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, is working on behalf of business in two cases pending before the U.S. Supreme Court. Here are summaries of the cases, expected to be decided by July, and the positions taken by the NCLC in friend-of-the-court briefs filed in the cases.

### ■ Union Tactics

In *Antony Brown vs. Pro Football, Inc.*, a case involving a conflict between labor and antitrust laws, the Chamber is urging the Supreme Court to uphold a ruling by the U.S. Court of Appeals for the District of Columbia Circuit. The circuit court ruled that companies participating in multi-employer bargaining are not subject to antitrust violations for unilaterally imposing a salary cap after an impasse in collective bargaining has been reached.

The case stems from a suit brought by 235 players who were assigned to "developmental," or practice, squads by the National Football League. A team can assign as many as six players who did not make its regular roster to its developmental squad. In 1989, after the collapse of negotiations between the NFL players' union and the bargaining unit of the 28 NFL teams, the team owners established a uniform salary of $1,000 a week for developmental-squad players.

That salary was the last offer made by the teams' bargaining unit to the union, which had rejected it.

The players' suit alleged that by unilaterally imposing the $1,000 wage rate after the union and the management bargaining unit had reached an impasse, the teams had unlawfully restrained trade in violation of the Sherman Antitrust Act. The act prohibits companies from colluding to set the prices they are willing to pay for services.

A jury agreed with the players and awarded them $10 million, which under the antitrust law was tripled to $30 million. The Court of Appeals overturned the award.

The NCLC's brief, filed on behalf of the NFL and team owners, argues that the National Labor Relations Act, which applies to the collective-bargaining process, allows labor and management in multi-employer bargaining units to set prices jointly in the labor market. The litigation center further argues that the collective-bargaining process does not end when the parties reach an impasse.

### ■ Changes In Benefit Plans

In *Lockheed Corp. vs. Spink*, the NCLC's brief asks the Supreme Court to reverse an appellate court decision that prohibits employers from amending their employee-benefit plans if the changes would help the company.



The Chamber's legal center is involved in a case related to antitrust laws that stems from a dispute between National Football League practice players and the 28 NFL teams.

In the same case, the NCLC also is seeking reversal of the appellate court's ruling concerning the retroactivity of a provision in the 1986 federal budget law that affects benefit plans.

The case stems from a suit filed by Paul L. Spink, a Lockheed employee. Spink sued the company under the federal Employee Retirement Income Security Act (ERISA) of 1974 after the company changed its pension plan to offer early retirement to workers, including Spink, in exchange for employees waiving their right to sue Lockheed for any employment-related reason after their retirement.

Spink's suit alleged that Lockheed violated ERISA because the company received "a valuable benefit" from its employees—waiver of the right to sue—as a condition of eligibility in the retirement plan. The suit also alleged that Lockheed violated a provision of the Omnibus Budget Reconciliation Act of 1986, which amended ERISA to require firms to include older employees in their plans.

Before the 1986 budget law, employers could legally exclude from their pension plans new hires 60 or older. Spink was hired in 1979 at age 61, and he was not covered by the Lockheed retirement plan until the 1986 budget law's ERISA provision took effect on Jan. 1, 1988. Spink was seeking retirement benefits for his service from 1979 through 1987.

Regarding the first element of Spink's suit, the NCLC argues that although ERISA prohibits some transactions that would benefit an employer—loans by a plan to an employer, for example—"none of the functions that give rise to fiduciary responsibility relate to setting the eligibility conditions under the plan, changing the eligibility conditions, or deciding to end the plan.

"The overall purpose of ERISA," the NCLC contends, is "not to define the employer's promise, but instead to assure that the employer keeps whatever promise it makes."

In arguing against the retroactivity of the 1986 budget law, the NCLC points to the statute itself, which states that the ERISA provision applies "only with respect to plan years beginning on or after Jan. 1, 1988, and only with respect to service performed on or after such date."

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# U.S. Chamber MemberServices

**The U.S. Chamber of Commerce offers numerous services and publications to its members. Here is a partial listing of these benefits.**

## Management Training

"The Coming Age Wave: Implications for the Future of Work, Marketing and Sales" will be the topic of a satellite seminar sponsored by the U.S. Chamber's Quality Learning Services (QLS) Division on May 7 from 1 to 3 p.m. Eastern time.



Kent-Dychtwald

Author Ken Dychtwald, president, chief executive officer, and founder of Age Wave, Inc., and Maddy Kent-Dychtwald, co-founder of the Orinda, Calif., company, will present the seminar. Their presentation will look at the aging population and its impact on business.

Other upcoming seminars, with the date, presenter, and topic of each, are:

**May 22**—Robert J. Kriegel, author, *If It Ain't Broke ... BREAK IT!*, "Sacred Cows Make the Best Burgers." This seminar will air from 1 to 3 p.m. Eastern time.

**June 5**—Les Brown, author, *Live Your Dreams*, "Live Your Dreams." This seminar will air from 6 to 7:30 p.m. Eastern time.

For information on the seminar site nearest you or to learn how you can host a downlink site, call the Chamber's Federation Programs and Services Division at 1-800-835-4730 or (202) 463-5940. U.S. Chamber members receive a 10 percent discount on the price of the seminars.

## Studio Rentals

The Chamber's television facilities in Washington, D.C., can be rented for videoconferences, professional briefings, and other programs. For more information, contact Suzi Montes de Oca at (202) 463-5921.

## How Your Members Of Congress Voted

The latest edition of the Chamber's *How They Voted* guide, which was published in the March issue of *The Business Advocate*, is now available as a separate publication.

The guide features senators' and representatives' votes on selected issues of importance to business in 1995, during the first session of the 104th Congress.

Included are descriptions of the issues chosen by the Chamber in determining its vote ratings for each member of Congress and the business federation's position on those issues. Two sets of ratings are included—one based on votes cast in 1995 and one based on votes during each lawmaker's congressional tenure.




To order the guide, call 1-800-638-6582. In Maryland, call 1-800-352-1450. Request publication No. 0467. Copies are $9 for Chamber members and $11 for nonmembers. Quantity discounts are available.

## Preparing Students For Future Jobs

The Chamber's Center for Workforce Preparation has several publications designed to help businesses, communities, and parents prepare today's students for tomorrow's jobs.

*New Century Workers: Effective School-to-Work Transition Programs* looks at innovative school-to-work transition programs designed and implemented by local education and business leaders throughout the country.

*On Target: Effective Parent Involvement Programs* provides parents and business and community leaders information on successful programs that have been used to increase parental involvement in children's education.

*Year 4: Community Efforts to Achieve the National Education Goals* highlights 20 programs that exemplify what can be achieved when a community unites behind a common vision.

To order the publications, which cost $18 each, call the Center for Workforce Preparation at (202) 463-5525.

## Tracking Cases In The Courts

The National Chamber Litigation Center, the U.S. Chamber's public-policy law firm, publishes *The Business Counsel* to keep companies informed about important business-related court cases in which the litigation center is involved.

The quarterly publication, along with a listing of NCLC cases—published eight times a year—is free to NCLC members. The cost to nonmembers is $45 a year.

To order *The Business Counsel* and *Case List*, call Cam Esser at (202) 463-5341. For further information about the NCLC, call Robin Conrad at (202) 463-5337.


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## Business Software

*Nation's Business*, the U.S. Chamber's monthly magazine, offers a number of ancillary products to help people start and expand businesses.

Among them are:

**BizPlanBuilder,** a computer program that can help entrepreneurs produce a polished business plan. It




includes more than 90 pages of typed and formatted forms and files needed for a professional-looking plan. The product comes with a 126-page reference guide and is available on disk for DOS, Windows, and Macintosh. Cost: $99.

**EmployeeManualMaker,** which allows business managers to publish their own manuals on company policies, procedures, and benefits. The computer program has more than 140 ready-to-customize documents. It comes with a 400-page reference guide and is available on disk for DOS and Macintosh. Cost: $99.

**Sales LetterWorks,** a program containing 308 custom-crafted letters for use in virtually all aspects of selling, including responding to customer complaints and collecting money. The program comes with a 372-page book and is available on disk for DOS, Windows, and Macintosh. Cost: $79.95.

**Business LetterWorks,** which contains 400 professionally written letters covering all areas of business, including letters to advertisers, suppliers, and employees. The program comes with a 470-page book and is available on disk for DOS, Windows, and Macintosh. Cost: $79.95.

Shipping and handling for each product is $6. To order any of the products listed above, call 1-800-429-7107.